



IMPACT OF FINANCIAL LITERACY ON AWARENESS LEVELS AND PREFERENCE OF INVESTMENT OF CAPITAL MARKET PRODUCTS

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Abstract: *The study explores the impact of financial literacy on awareness levels and preferences for capital market products among households in the Mahabubnagar district of Telangana. Financial literacy, encompassing financial attitude, behaviour, and knowledge, plays a crucial role in shaping individuals' financial decisions, particularly regarding investments in capital market products like equity shares, bonds, mutual funds, and derivatives. Data was collected through a structured questionnaire to measure financial literacy and its association with awareness and investment preferences. Findings revealed a strong positive association between financial literacy levels and awareness of capital market products. Financially literate individuals demonstrated significantly higher awareness and preference for equity shares, bonds, mutual funds, and derivatives compared to non-literate individuals. The study also identified a substantial variation in investment preferences based on financial literacy, with financially literate individuals showing a higher inclination towards diverse investment avenues, particularly mutual funds and equity shares. The study suggests the need for targeted financial literacy programs, particularly in rural areas, to improve financial decision-making and participation in capital markets.*

Keywords: *Financial literacy, Financial literacy levels, Financial products, Investment preferences.*

1.1. INTRODUCTION

Financial literacy affects financial decision-making, with a causal link moving from knowledge to behaviour. Since the recent financial crisis, there has been increased attention on strategies to prevent individuals from financial illiteracy and inability to make informed financial decisions. Individuals, rather than employers or the government, must make important economic decisions. There will be variation in both economic behaviour and financial literacy, so it is unlikely that any default rate or environment will improve everyone's well-being.

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1.2. REVIEW OF LITERATURE

Sweta Kumari (2017) the aim of this paper was to promoting the financial literacy, in order to better understand consumer behaviour, and the measure how well the average person understands and uses financial information, and to determine what role the central bank plays in facilitating financial literacy. Those who develop financial literacy programs and policy makers may find the study useful to make better financial decisions and create awareness of the benefit of financial education. Future research will also focus on the role of SEBI, government, academicians, banks and other institutions in enhancing financial literacy.

J. Gajendra Naidu (2017) the study found that due to India's rapid economic growth and its complex financial market, improper decisions are made regarding finances. A good demonstrated attitude and basic financial skills are essential for achieving the financial goals. Many studies show that financial literacy is very low in India, especially among young people and women.

Jayanthi M, Rau SS (2017) the study found that socio-demographic variables are highly related to financial literacy. As compared to the younger age groups, the age over 50 years has low levels of financial knowledge due to the lack of awareness of financial literacy. Compared to males, females have lower financial knowledge. Females have no exposure to financial markets. Compared to those with a graduate level education, those who studied elementary and secondary education have lower levels of financial literacy. Low levels of financial literacy lead to poor financial behaviour among rural household members in terms of money management, investment and borrowing.

Sunil B. Kapadia, et.al, (2018) the aim of this paper was to analyse the future growth of various markets with greater depth and breadth to reach across all segments of investors/participants with a broad range of choices. We have to spread knowledge, literacy, and education about the various assets and products in the financial markets in order to empower the common man/investor to participate in the market with the required knowledge, and ultimately gain. By engaging with various stakeholders of society on different platforms, we will be able to reach more people and encourage them to participate in the financial market.

Blessy Roy, Ruchi Jain (2019) the study evaluated that women should be aware of the investment avenue as they generally rely on their spouses or other family members. Their focus is on a few investment avenues such as Bank and Post Office fixed deposits only. Lack of knowledge about shares, Mutual Funds, and other investment alternatives makes it difficult for them to make an informed investment decision regarding these alternatives.

Ravikumar T, Girish S, Rajesh R, Halaswamy D (2020) the study found that governments around the world are concerned about financial inclusion (FI). As a way to reduce poverty and inequality, financial inclusion aims to ensure that all individuals and families have access to formal financial products regardless of income,

caste, creed, region, or religion. As a supply-side effort, many initiatives have been undertaken to improve financial inclusion. Learning about finance is a prerequisite for the accomplishment of financial inclusion initiatives. In rural areas, financial literacy is low.

Abdul Azeez NP, SM Jawed Akhtar (2020) the study examined the digital and financial literacy levels in India are low due to the inability to absorb the technology. It will impede the pace of rural transformation and slow the pace of financial inclusion at this level of literacy. In order to create awareness of digital finance services among the citizens, especially those in rural and semi-urban areas, and also to enable/support access to such services, immediate action is needed. A public awareness campaign for digital finance products and services is urgently needed, especially in rural and semi-urban areas. It should also enable and support citizens' access to digital finance options.

Mahima Ninan, Anu Kurian (2021) the study concluded that students' financial literacy is directly influenced by their gender, education, and financial behaviour. The type of course taken also significantly impacts a student's financial literacy. Financial behaviour was measured through savings behaviour, credit behaviour, and financial planning, with a significant relationship found between financial behaviour and financial literacy. The study suggests that family and friends are the most influential in managing students' money.

Sunita Kumari, Jyoti Sondhi(2021) the study found that most of those who participated were unaware of the benefits they can get from government schemes, but were familiar with programs of a non-financial nature. It is important to note here that most of the respondents are getting benefits from the government schemes, but they are getting benefits as a member of their family and not as an individual. Since they are members of the 'financial inclusion' movement, they are part of PMJDY but are not aware of the individual benefits that they can get from the same. Women living in rural areas have low financial literacy.

Ajay Purohit,et.al,(2022) the study depicted that financial wellness is significantly influenced by cash management, savings behaviour, and financial attitudes. Financial numeracy skills and financial knowledge are reasonable for households, according to the study. Savings behaviour also mediates the relationship between cash management and financial wellness. Rural development stakeholders and policymakers can use the study to strategically focus on financial inclusion programs.

S.Kavitha Devi et,al (2024) This paper aims to examine the levels of financial literacy among rural and urban households, focusing on key components such as financial attitude, behavior, and knowledge. The research utilizes a stratified random sampling method, with primary data collected through a structured questionnaire from respondents. The chi-square method was employed to determine the relationship between financial literacy levels and demographic factors. The findings of the study revealed a significant association between financial literacy levels and demographic factors.

1.3. OBJECTIVES OF THE STUDY

To examine the relationship between Awareness levels of capital market products and financial literacy levels in erstwhile Mahabubnagar District households.

To examine the relationship between investment preferences for capital market products and financial literacy levels (FLL).

1.4. HYPOTHESES

H₁: There is no association between financial literacy levels and Awareness levels of capital market products.

H₂: There is no association between investment preferences for capital market products and financial literacy level.

1.5. METHODOLOGY

1.5.1 Sources of data

Primary Data

The primary data was gathered using a structured questionnaire from respondents in households across Mahabubnagar district.

Secondary Data

Secondary data was obtained from various sources, including publications, journals, articles, newspapers, and official websites such as those of the RBI, SEBI, IRDAI, PFRDA, and NCFE.

1.5.2. Selection of the District

Telangana state consists of 10 districts, with Mahabubnagar being the largest in terms of area. It has the highest rural population but the lowest urban population. However, the district has the lowest literacy rate compared to other districts and is well-known for migration. For these reasons, Mahabubnagar was chosen for the study.

1.5.3. Sample for the Study

The study employed a stratified random sampling technique under probability sampling. Mahabubnagar district was divided into ten strata for data collection, based on the 2011 census, with five revenue divisions selected from Mahabubnagar. According to the Krejcie and Morgan model, the maximum sample size for a known population would be 384, so a sample size of 400 was chosen for this study.

2.1. MEASURING FINANCIAL LITERACY

In this study, the measurement of financial literacy involves assessing financial attitude, financial behaviour, and financial knowledge, which are the three facets that comprise this concept.

Scoring Procedure for Financial Literacy

Different researchers have used different methods for measuring financial literacy level. For the purpose of the study, the researcher has used the scoring procedure framed by OECD further used by Atkinson and Messy (2012) and Desdemona and Sreekala (2015) was used for measuring the financial literacy level. Financial literacy and inclusion survey (NCFE-2019). The questionnaire consists of 3 questions on financial attitude, 9 questions on financial behaviour and 8 questions on financial knowledge.

The financial attitude score is determined by adding all scores under the attitude category. The total score for financial attitude is derived by adding together the scores for each of the three questions. Each question consists of 1 to 5 marks (strongly agree 1 to strongly disagree-5). Overall, these three questions have 15 marks. The individual respondent's score is obtained by dividing their total score by 3. As a result, an individual will have a minimum score of 1 and a maximum of 5. The financial attitude of an individual is considered to be unfavorable attitude when the score is less than 3. A score of equal or greater than 3 is considered to be favorable financial attitude.

The financial behaviour score is determined by adding all scores under the behaviour category. As a result, an individual will have a minimum score of 0 and a maximum score of 9. The financial behaviour of an individual is considered to be unfavourable behaviour when the score is less than 6. A score is equal or greater than 6 considered to favourable financial behaviour.

For each correct answer 1 was given and for incorrect answer 0 was given. The financial knowledge score is determined by adding all scores under the knowledge category. As a result, an individual will have a minimum score of 0 and a maximum score of 8. The financial knowledge of an individual is considered to be poor when the score is less than 6 and high when the score is between 6 and 8.

Table 1

Association between FLL and Awareness Levels of Equity Shares

Financial literacy Levels		Awareness levels on equity Shares					Total	Fisher Exact Value	p value
		VLA	LA	NHNL	HA	VHA			
NFL	Count	164	31	36	44	18	293	73.304	0.001
	% within FLL	56.00%	10.60%	12.30%	15.00%	6.10%	100.00%		
FL	Count	17	8	17	35	30	107		
	% within FLL	15.90%	7.50%	15.90%	32.70%	28.00%	100.00%		
Total	Count	181	39	53	79	48	400		

	% within FLL	45.30%	9.80%	13.30%	19.80%	12.00%	100.00%		
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Source: Compiled from primary data

The table 1 shows a cross-tabulation of financial literacy levels (NFL-Non Financial Literacy & Financial Literacy) and awareness levels of equity shares, along with their respective Fisher exact values.

H1: There is no association between awareness level of equity shares and FLL.

The Fisher exact value show a strong association between financial literacy level and awareness of equity shares, with p-values of 0.001. The Fisher exact value is 73.304. Based on these values null hypotheses were not accepted. This indicates that individuals who are financially literate are more likely to have a higher awareness of equity shares compared to those who are not financially literate.

Table: 2

Association between FLL and Awareness Levels of Bonds

Financial literacy Levels		Bonds					Total	Fisher Exact Value	p value
		VLA	LA	NHNL	HA	VHA			
NFL	Count	124	43	31	65	30	293	98.165	0.000
	% within FLL	42.30%	14.70%	10.60%	22.20%	10.20%	100.00%		
FL	Count	8	5	2	73	19	107		
	% within FLL	7.50%	4.70%	1.90%	68.20%	17.80%	100.00%		
Total	Count	132	48	33	138	49	400		
	% within FLL	33.00%	12.00%	8.30%	34.50%	12.30%	100.00%		

Source: Compiled from primary data

Table 2 presents a cross-tabulation of financial literacy levels, distinguishing between NFL (Non-Financial Literacy) and financial literacy, and awareness levels of bonds, along with their respective Fisher exact values.

H2: There is no association between awareness level of bonds and FLL.

The Fisher exact value shows a strong association between financial literacy level and awareness of bonds, with p-values of 0.000. The Fisher exact value is 98.165. Based on these values null hypotheses were not accepted. This indicates that individuals who are financially literate are more likely to have a higher awareness of bonds compared to those who are not financially literate.

Table 3:**Association between FLL and Awareness Levels of Mutual Fund**

Financial literacy Levels		Mutual Fund					Total	Fisher Exact Value	p value
		VLA	LA	NHNL	HA	VHA			
NFL	Count	115	34	16	97	31	293	97.713	0.000
	% within FLL	39.20%	11.60%	5.50%	33.10%	10.60%	100.00%		
FL	Count	3	4	1	62	37	107		
	% within FLL	2.80%	3.70%	0.90%	57.90%	34.60%	100.00%		
Total	Count	118	38	17	159	68	400		
	% within FLL	29.50%	9.50%	4.30%	39.80%	17.00%	100.00%		

Source: Compiled from primary data

The table 3 shows a cross-tabulation of financial literacy levels (NFL-Non Financial Literacy & Financial Literacy) and awareness levels of mutual funds. Additionally, the table includes the corresponding Fisher exact values for each of the aforementioned categories.

H3: There is no association between awareness level of mutual funds and FLL.

The Fisher exact value shows a strong association between financial literacy level and awareness of mutual funds, with p-values of 0.000. The Fisher exact value is 97.713. Based on these values null hypotheses were not accepted. This indicates that individuals who are financially literate are more likely to have a higher awareness of mutual funds compared to those who are not financially literate.

Table 4:**Association between FLL and Awareness Levels of Derivatives**

Financial literacy Levels		Derivatives					Total	Fisher Exact Value	p value
		VLA	LA	NHNL	HA	VHA			
NFL	Count	206	39	31	11	6	293	88.413	0.000
	% within FLL	70.30%	13.30%	10.60%	3.80%	2.00%	100.00%		
FL	Count	33	16	9	36	13	107		
	% within FLL	30.80%	15.00%	8.40%	33.60%	12.10%	100.00%		
Total	Count	239	55	40	47	19	400		
	% within FLL	59.80%	13.80%	10.00%	11.80%	4.80%	100.00%		

Source: Compiled from primary data

The table 4 shows a cross-tabulation of financial literacy levels (NFL-Non Financial Literacy & Financial Literacy) and awareness levels of derivatives, along with their respective Fisher exact values.

H4: There is no association between awareness levels of derivatives FLL.

The Fisher exact value shows a strong association between financial literacy level and awareness of derivatives, with p-values of 0.000. The Fisher exact value is 88.413. Based on these values null hypotheses were not accepted. This indicates that individuals who are financially literate are more likely to have a higher awareness of derivatives compared to those who are not financially literate.

Table 5

Association between FLL and Preference of Mutual fund

FLL	Count	Mutual fund						Chi square value	DF	Asymptotic Significance (2sided)
		MDP	FDP	N	FP	MP	Total			
Non-Financial literacy	Count	163	22	52	39	17	293	90.43	4	0.001
	% within FLL	55.60%	7.50%	17.70%	13.30%	5.80%	100.00%			
Financial literacy	Count	17	4	14	40	32	107			
	% within FLL	15.90%	3.70%	13.10%	37.40%	29.90%	100.00%			
Total	Count	180	26	66	79	49	400			
	% within FLL	45.00%	6.50%	16.50%	19.80%	12.30%	100.00%			

Source: Compiled from primary data

The table 5 shows the preference of mutual fund (MF) among individuals based on their FLL. Among NFL individuals, 13.30% fairly prefer MF, followed by 5.80% who were most preferred. Among FL individuals, 37.4% fairly prefer MF, followed by 29.90% who were most preferred.

Respondents had a p-value lower than 0.05, which led to the null hypothesis rejection, indicating a significant connection among FLL and mutual fund preference. Therefore, based on their financial literacy level, respondents exhibit a substantial variation in their investment preference for mutual funds.

Table 6: Association between FLL and Preference of Bonds

FLL	Count	Bonds						Chi square value	DF	Asymptotic Significance (2sided)
		MDP	FDP	N	FP	MP	Total			
Non-Financial literacy	Count	187	31	39	19	17	293	55.823	4	0.001
	% within FLL	63.80%	10.60%	13.30%	6.50%	5.80%	100.00%			
Financial literacy	Count	25	20	27	21	14	107			
	% within FLL	23.40%	18.70%	25.20%	19.62%	13.00%	100.00%			
Total	Count	212	51	66	40	31	400			
	% within FLL	53.00%	12.80%	15.80%	10.50%	8.00%	100.00%			

Source: Compiled from primary data

The table 6 shows the preference of bonds among individuals based on their FLL. Among NFL individuals, 6.50% fairly prefer bonds, followed by 5.80% who were most preferred. Among FL individuals, 19.62% fairly prefer bonds, followed by 13% who were most preferred.

Respondents had a p-value lower than 0.05, which led to the null hypothesis rejection, indicating a significant connection among FLL and bonds preference. Therefore, based on their financial literacy level, respondents exhibit a substantial variation in their investment preference for bonds.

Table 7: Association between FLL and Preference of Equity Shares

FLL	Count	Equity Shares						Chi square value	DF	Asymptotic Significance (2sided)
		MDP	FDP	N	FP	MP	Total			
Non-Financial literacy	Count	186	27	47	23	10	293	88.817	4	0.001
	% within FLL	63.50%	9.20%	16.00%	7.80%	3.40%	100.00%			
Financial literacy	Count	20	11	21	36	19	107			
	% within FLL	18.70%	10.30%	19.60%	33.60%	17.80%	100.00%			
Total	Count	206	38	68	59	29	400			
	% within FLL	51.50%	9.50%	17.00%	14.80%	7.30%	100.00%			

Source: Compiled from primary data

The table 7 shows the preference of equity shares among individuals based on their FLL. Among NFL individuals, 7.80% fairly prefer bonds, followed by 3.40% who were most preferred. Among FL individuals, 33.60% fairly prefer bonds, followed by 17.80% who were most preferred.

Respondents had a p-value lower than 0.05, which led to the null hypothesis rejection, indicating a significant connection among FLL and equity shares preference. Therefore, based on their financial literacy level, respondents exhibit a substantial variation in their investment preference for equity shares.

Findings

Financial literacy has a significant impact on the awareness and preferences for capital market products such as equity shares, bonds, mutual funds, and derivatives. Individuals with higher financial literacy tend to have better awareness of various investment options compared to those with lower literacy levels. Financially literate individuals are more inclined to invest in mutual funds, bonds, and equity shares, while those with lower literacy levels tend to shy away from these options.

Suggestions

To address the pressing need for improved financial literacy, targeted initiatives should be implemented, especially in rural areas where financial awareness is often limited. Educational programs and workshops tailored to the specific needs of these communities can significantly enhance their understanding of financial products and services. Such initiatives should focus on delivering practical knowledge about saving, investment, and basic financial management to empower individuals in making informed financial decisions.

Conclusion

The study highlights that financial literacy plays a crucial role in shaping investment awareness and preferences. Higher financial literacy leads to better financial decisions, whereas lower literacy limits market participation. Enhancing financial literacy, particularly in rural and underserved areas, is essential for promoting financial inclusion and enabling individuals to make informed investment choices.

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