



A Study on Financial Literacy and Investment Behaviour of Salaried Employees

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Abstract – Financial literacy has emerged as an important factor influencing the financial decision-making and investment behaviour of individuals in the modern economy. Salaried employees, in particular, face increasing financial responsibilities such as savings management, investment planning, retirement preparation, and wealth creation. In this context, understanding financial concepts and applying them effectively has become essential for achieving long-term financial security. The present study examines the level of financial literacy among salaried employees and analyzes its impact on their investment behaviour. The study focuses on various aspects of financial literacy such as budgeting habits, understanding of inflation, interest rates, diversification, and risk-return analysis. It also examines investment preferences, risk tolerance, investment objectives, diversification practices, and factors influencing investment decisions. Primary data for the study was collected through a structured questionnaire distributed among salaried employees. Secondary data was collected from journals, books, reports, and online sources related to financial literacy and investment behaviour. The findings of the study reveal that salaried employees possess a moderate level of financial literacy. While many respondents are aware of basic financial concepts, consistent practical application of financial knowledge is limited. The study also indicates that financial literacy significantly influences investment behaviour, particularly in terms of diversification and investment planning. Respondents with better financial understanding tend to make more informed and diversified investment decisions. However, lack of knowledge, fear of loss, insufficient funds, and limited time remain major challenges faced by respondents while investing. The study concludes that improving financial literacy can enhance the quality of investment decisions and promote better financial stability among salaried employees. The findings provide useful insights for financial institutions, policymakers, employers, and researchers to design effective financial education initiatives and encourage responsible investment behaviour.

Keywords – Financial Literacy, Investment Behaviour, Salaried Employees, Diversification, Risk and Return, Investment Decisions, Financial Planning, Budgeting, Mutual Funds, Financial Awareness, Investment Preferences, Risk Tolerance, Financial Education, Wealth Creation, Savings Behaviour.

I. INTRODUCTION

Financial literacy refers to the ability of individuals to understand and effectively use financial knowledge in managing personal finances, savings, investments, and financial risks. In today's rapidly changing economic environment, financial literacy has become increasingly important due to the growing complexity of financial products and investment opportunities. Individuals are now required to make informed financial decisions regarding savings, investments, retirement planning, taxation, insurance, and wealth management.

Salaried employees form a major section of the working population and regularly deal with financial decisions involving income allocation, expenditure management, savings, and investments. However, despite having a stable source of income, many salaried individuals lack adequate financial knowledge and investment awareness. This often results in poor financial planning, inadequate savings, improper investment choices, and excessive dependence on traditional investment avenues.

The investment behaviour of salaried employees is influenced by several factors such as financial literacy, income level, age, risk tolerance, work experience, financial goals, and access to information. Financially literate individuals are generally more capable of evaluating investment risks and returns, diversifying investments, and

selecting suitable financial instruments according to their financial objectives.

In recent years, investment opportunities have expanded significantly with the growth of mutual funds, stock markets, insurance products, retirement schemes, and digital investment platforms. While these opportunities provide better wealth creation possibilities, they also require individuals to possess sufficient financial knowledge to make rational and informed decisions.

The present study aims to analyze the level of financial literacy among salaried employees and examine its impact on investment behaviour. The study also seeks to identify investment preferences, sources of financial information, challenges faced while investing, and the relationship between financial literacy and diversification practices.

II. LITERATURE REVIEW

Lusardi and Mitchell (2014) emphasized that financial literacy is an essential life skill that enables individuals to make informed financial decisions and improve financial well-being. Their study highlighted that individuals with higher financial literacy are more likely to participate in financial markets and plan effectively for retirement.

Chen and Volpe (1998) conducted a study on financial literacy among individuals and found that inadequate financial knowledge negatively affects investment



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decision-making. Their findings indicated that lack of financial understanding leads to poor financial management practices.

Hilgert, Hogarth, and Beverly (2003) examined the relationship between financial knowledge and financial behaviour. The study concluded that individuals possessing better financial knowledge are more likely to engage in positive financial practices such as budgeting, saving, and investment planning.

Atkinson and Messy (2012) focused on measuring financial literacy and observed that financial awareness significantly influences savings and investment behaviour. Their study also highlighted the importance of financial education in improving financial capability.

Bodie, Kane, and Marcus (2018) discussed the importance of diversification and risk management in investment decisions. According to their findings, financially literate investors are more likely to diversify their portfolios and reduce investment risks.

Despite several studies on financial literacy, there remains limited research specifically focusing on salaried employees and their investment behaviour in the Indian context. The present study attempts to bridge this gap by analyzing financial literacy and investment practices among salaried employees.

III. PURPOSE OF THE STUDY

The primary purpose of this study is to examine the level of financial literacy among salaried employees and analyze its impact on their investment behaviour. The study aims to understand how financial knowledge influences investment decisions, risk preferences, diversification practices, and financial planning habits.

The study also intends to identify the preferred investment avenues of salaried employees and the factors affecting their investment decisions. In addition, it seeks to examine the major challenges faced by respondents while investing and evaluate their level of financial confidence.

Another important purpose of the study is to understand whether financial literacy encourages individuals to diversify investments and make informed financial decisions. The findings of the study are expected to provide useful insights for financial institutions, policymakers, employers, and researchers in designing effective financial education initiatives.

IV. RESEARCH METHODOLOGY

Research methodology provides a systematic framework for conducting research in a scientific and organized manner. The present study adopts a descriptive research design to analyze financial literacy and investment behaviour among salaried employees.

The study is based on both primary and secondary data. Primary data was collected through a structured questionnaire distributed among salaried employees. The questionnaire included questions related to demographic factors, financial literacy, investment preferences, diversification practices, and challenges faced during investment decision-making.

Secondary data was collected from books, journals, research papers, reports, and online sources related to financial literacy and investment behaviour.

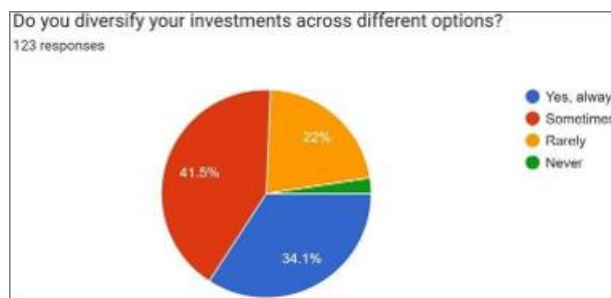
The sample size for the study consists of 123 respondents. A convenience sampling method was used due to accessibility and time constraints. The collected data was analyzed using percentages, tables, charts, and the Chi-Square test.

The independent variables considered in the study include financial literacy, risk awareness, diversification understanding, and demographic factors. The dependent variable is investment behaviour among salaried employees.

V. HYPOTHESIS TESTING (CHI-SQUARE TEST)

Hypothesis

- H₀: Financial literacy does not influence diversification of investments.
- H₁: Financial literacy influences diversification of investments.



Observed Frequency Table (O)

Diversification Practice	Respondents
Yes Always	42
Sometimes	51
Rarely	27
Never	3
Total	123

Expected Frequency Table (E)

$$E = 123/4 = 30.75$$

Chi-Square Calculation Table

Category	O	E	(O-E) ²	(O-E) ² /E
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Yes Always	42	30.75	126.56	4.12
Sometimes	51	30.75	410.06	13.33
Rarely	27	30.75	14.06	0.46
Never	3	30.75	770.06	25.04

$$x^2 = 4.12 + 13.33 + 0.46 + 25.04 = 42.95$$

Result Table: Chi-Square Test Summary

Particulars	Value
Degree of Freedom	$(4-1) = 3$
Level of Significance	5% (0.05)
Critical Value	7.815
Calculated x^2 Value	42.95
Decision	Reject H_0
Conclusion	Significant relationship exists

Interpretation

Since the calculated Chi-Square value (42.95) is greater than the table value (7.815), the Null Hypothesis is rejected and the Alternative Hypothesis is accepted. This indicates that financial literacy significantly influences diversification behaviour among salaried employees.

VI. FINDINGS OF THE STUDY

The study reveals that salaried employees possess a moderate level of financial literacy. Most respondents are aware of basic financial concepts such as inflation, budgeting, interest rates, and diversification, but practical application remains inconsistent.

The findings indicate that savings accounts, fixed deposits, and mutual funds are the most preferred investment avenues among respondents. Safety of capital and wealth creation are identified as the primary investment objectives.

The study also highlights that financial literacy has a significant influence on diversification behaviour. Respondents with better understanding of financial concepts are more likely to diversify their investments and consider risk-return analysis before investing.

Another important finding is that lack of financial knowledge, fear of loss, insufficient funds, and lack of time are major challenges faced by respondents while making investment decisions.

The study further reveals that financial advisors are the primary source of financial information for many respondents, although a considerable number also rely on informal sources such as friends, family, and social media.

Overall, the findings suggest that improving financial literacy can positively influence investment behaviour and encourage more informed financial decision-making among salaried employees.

VII. CONCLUSION

The present study examined the relationship between financial literacy and investment behaviour among salaried employees. In today's dynamic financial environment, financial literacy has become essential for making informed investment decisions and achieving long-term financial stability.

The study concludes that salaried employees possess a moderate level of financial literacy, but there are significant gaps in deeper financial understanding and practical application. Financial literacy plays an important role in influencing investment behaviour, particularly with respect to diversification, risk assessment, and financial planning.

The findings indicate that financially literate individuals are more likely to diversify investments, analyze risk and return, and make informed investment choices. However, challenges such as lack of knowledge, fear of loss, and insufficient financial confidence continue to affect investment decisions.

The study emphasizes the need for improving financial education and awareness among salaried employees. Financial institutions, employers, and policymakers should promote financial literacy programs and provide accessible financial guidance to help individuals make better financial decisions.

Although the study provides valuable insights, it is limited to a specific sample and geographical area. Future research may be conducted on a larger scale by including additional variables and broader respondent groups to gain deeper understanding of financial behaviour.

Overall, improving financial literacy can contribute significantly to better investment behaviour, enhanced financial security, and long-term wealth creation among salaried employees.

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