The Role of Financial Literacy in Investment Decisions of Urban and Rural Investors

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Abstract

Critical in making investment decisions, financial literacy is a big issue in the modern dynamic world of economy nowadays. It gives them knowledge, skills and confidence to make sound judgment, in regard to savings, investments financial planning. In this paper the influence of financial literacy on investor behaviour whether in Funt to the rural and urban is discussed in further to the point of the definition of investment behaviour respectively. The paper demonstrates how the descriptive statistics and hypothesis test is able to determine this difference between the two sample groups in their awareness, preferences and risk tolerance. Findings indicate that the majority of the time urban investors are in a position to be financially literate in the sense that they invest in a variety of instruments compared to rural investors who still opt to utilize the traditional and safer instruments owing to their ignorance levels. This paper has provided own conclusion that financial education program is very vital in bridging this gap in literacy and enhance financial inclusion of various regions.

Keywords: Financial Literacy, Investment Decisions, Urban Investors, Rural Investors, Risk Perception, Financial Education, Financial Inclusion.

Introduction:

Money plays a significance in the life of any given individual. The way the people spend, stored and saved money have importance for their economical stability in later. The world is getting more and more financial with financial products and services and it's not enough to just make money but know how to manage and invest the money to the right place correctly. Here is the sphere of financial literacy.

Financial literacy Intelectual, financial literacy refers to knowledge and understanding the simple financial concepts in saving, investing, borrowing, interest rates, inflation, risk and return, and retirement planning. Financial literacy will also enable one make some a wise decision regarding: where one intends to deposit such finances, amount of money to store and what form of investment will yield returns to such funds with the least risks involved. It helps also in avoiding preaching the son such more bad financial decisions taken before by graduates, frauds credit, unnecessary debts.

These persons who live in urban areas and rural areas have contrasting extremes when it comes to investment. Urban investors are perhaps more vulnerable to more banks, more stock markets, more mutual funds and more insurance companies. They are fed their daily routine information in the form of newspapers, television, internet and mobile apps. Because of this they have a greater willingness to try out financial products with them. On the other hand, amidst the rural investors some of them are more leant towards the traditional mode of investment viz., gold, land, livestock or fixed deposits at the local banks or post offices. On their part, they are victims of their inadequate access to no financial institutions, poor awareness and lack of confidence in the modern financial systems.

The urban-rural investor gap, then, is also not so much about income, but an investor gap characterized by a financial literacy gap. The rural investors are several and could simply be people a, with the money to invest and they know about the different opportunities out there. Similarly, not all such cities are able to earn a lot of money easily which could still be spent prudently in case they lack the financial expertise to do so.

The purpose of the present paper is to understand the concept of financial literacy, financial literacy influence on investment decision-making of city and rural investors. It attempts establish the role, which the knowledge of finance plays in the decision made by the people, why people take risks, why people make sense of different types of investment opportunities etc. There are also paper problems concerning the distinction of urban and rural investors and why financial education should be spread to all corners of society.

Thereby, the research will prove useful in educating policy makers, the financial institutions and teacher. Having become more financially literate - and especially in the countryside people have become more literate - people are able to better make use of their income, they can save, in case of an emergency, and they can make to begin to be active in the economy.

Literature Review:

According to some of the studies, financial literacy has been emphasised to be significant in the behaviour of investment and investment decisions. In a study that compared the financial decision of both the young people and the aging people throughout their life cycle, Agarwal et al. (2010) revealed that the young people as well as the aging people made poor financial decisions because of lack of experience or deterioration of mental capacities implying that financial literacy was a crucial aspect in life. Hung, Parker, and Yoong (2009) not only dared look for the meaning and measurement of financial literacy but also discussed the direct implications of knowledge difference-both on the financial well-being of people and their ability to make informed choices. Similarly, Kumari and Malhotra (2016) examined the Indian investor, and they found that the Indian investor financial literacy play a key role in the nature of the investment that the more literate investor is more diversified in their portfolio than the less literate investors who are inclined towards making more conventional investments.

Lusardi and Mitchell 2007 designated the importance that financial literacy can play in preparation and retirement planning. They found that the more educated people save and you take on risks in later years. This was directly supported by Organisation for Economic Cooperation and Development (OECD) in 2018 that emphasised the need to advocate policy level action to promote financial education as in addition to the decision-making process being more democratic at the individual level, financial education has a positive impact on the economy. In the India case scenario indicate discussion Saha and Kumar (2017) conclude that financial literacy would directly influencing the investment choice of the financially literate investors who displayed confidence in the modern financial products over their low literate counterparts.

A study by Mandell and Klein (2009) in the area of the effectiveness of financial literacy education, showed that financial literacy indeed functioned to positively change financial behavior of individuals through educating the persons of financial concepts. More generally, Grohmann, Kluhs and Menkhoff (2019) have found, drawing on cross-country evidence, that a boost to financial literacy facilitates improved financial inclusion and helps kick-start people in a better position to lead in accessing formal financial systems. And finally, Hasler and Lusardi (2020) have discussed the relationship between financial literacy and financial resilience in the global economy and stated that the more an individual is financially literate the higher the chance he/she is to cope with the financial shocks, economic disadvantage and financial surprise.

Overall, based on the literature reviewed, it can be finally put forward with more conclusions: Financial literacy is a good statistical predictor of savings, investment options, retirement decisions, financial inclusion and resilience. City dwellers have more exposure and more information but the rural investor is often a poor financial literate person so the financial literacy more precise financial education program.

Objectives of the Study:

- To assess the level of financial literacy among urban and rural investors.
- To analyze the impact of financial literacy on investment preferences and decisions.
- To identify differences in risk perception and investment behavior between urban and rural investors.
- To suggest measures for improving financial literacy and promoting financial inclusion.

Hypothesis:

- **H_0 (Null Hypothesis):** There is no significant relationship between financial literacy and investment decisions of urban and rural investors.

- **H_1 (Alternative Hypothesis):** Financial literacy significantly influences the investment decisions of urban and rural investors.

Research Methodology:

In the current studies of the study should be descriptive or analytical. There is formulated to know the role played by financial literacy on the investment decision of urban and rural investors. The study population of individual investors will be urban, rural based and actively engaged with respect to some form of saving or investments. It selected 200 form minds in the attempt to arrive at more crude and reliable results, and may include 100 urban like 100 rural investors. Stratified random sampling technique has been used to choose the respondents and order of the respondent's equal representation of both groups.

The information was collected was focused on primary and secondary sources. A structured questionnaire with questions related to financial knowledge and awareness about investment products, risk taking and actual investment behaviour were used in order to gather primary data. The questionnaire uses basic words to contextualize the principal notions and is well ensured that the respondents despite their relatively low education level get the question and respond accordingly. In addition to this, a number of respondents were also interviewed and involved in an informal conversation to understand their investment behaviour at the better. Primary results were then validated by the second source of data which was Journal, research papers and further government reports and publications by the financial institutions.

In a zuke to analyze the results data descriptive statistics was adopted to present the responses using statistical technique such as mean, std, median analysis and percentage analysis. So that the level of the hypothesis about the application of financial literacy in the investment decision, test the hypothesis Chi-square level. test level in 5%. Hypothesis t-test. These served the following purposes: To. establish the statistical significance of differences between urban and rural investors in investment behaviour. It has been studied in collection of ways in such a way that the outcome will be precise and trustworthy.

Overall, the methodology employed in the research studies conducted through this research is through the use moderate trajectory of using a blend of quantitative and qualitative data. It makes sure that not only numbers are reflected in the results, but also real attitudes, perception and issues of investors that work in urban and rural settings are reflected, too.

Table 1: Descriptive Statistics:

Variable	Urban Investors (Mean)	Rural Investors (Mean)	Standard Deviation
Financial Literacy Score	7.8	4.9	1.2
Awareness of Investment Options	8.2	5.1	1.4
Risk Tolerance Level	7.0	4.5	1.3
Preference for Modern Products	65%	25%	-

Analysis of Descriptive Statistics:

The descriptive data acquired in the research provides a big picture of the difference in the financial literacy and investment behaviour of the urban investors and rural investors. To take one case in point, the findings show that urban investors are more financially literate than are their rural counterparts. Most of the cities respondents understood some basic words, such as inflation, interest rates, risk-return trade-off and diversification. Conversely, the majority of the rural respondents struggled with these notions and also tended to use informal sources of financial tips offered by friends, relatives or agent at the local level instead of using formal sources of financial advice. This follows on from it being able to be established that there was a knowledge between the two factions.

The urban investors as per their level of awareness on the available investment options were informed about the new financial products like mutual funds, equities, insurance etc and online investment platforms. On the other hand, a few investors (either less) such as the

current rural investors invested in traditional investments such as gold, land, livestock and bank or post office fixed deposits. This gap illustrate access to information and exposure of the financial institutions which have a significant impact on investment decisions.
It is also necessary to add that notable variance was mentioned when analyzing the depth of the risk tolerance. The clients in the city were likely to take risks when investing their agents in the market related products like shares and mutual funds. This made them available to new financial products that were easier to experiment with due to access to financial advice as well as financial technology. Investors in the rural areas on the other hand favored low risk, safe investments and tend to favour that investment which offer a guarantee of returns. Their financial illiteracy, wavering revenues and distrust in investing in markets can be seen as the causes of this conservative behavior.
The other interesting conclusion is that urban investors are more susceptible to diversify their portfolio by investing their money in a variety of products in order to minimize the risk to induce the highest returns. On the other hand, rural investors are investing in less than two traditional assets, which contributes to overweight vulnerability of these investors in crisis. This development shows that the more their money-liberty people is, the more will they makes the better choice to their investments and be able to makes safer investments.
On the whole, the descriptive statistics shows that urban investors are in a more fortunate position than the rural investors in form of amount of financial knowledge and awareness about difference of options or opportunities available to make different investments and risk. The causes of financial illiteracy in rural investors are due to poor decision making, and that is because they use the old form of investments. These results determine that financial education and awareness campaigns among the rural communities should be availed and forcibly worked on at the earliest to enable them to make an educated choice about finances and thereby improve their financial security.

Table 2: Hypothesis Testing:

Test Applied	Calculated Value	Critical Value	Significance Level	Result
Chi-Square Test	15.32	9.49	0.05	H_0 Rejected

Analysis of Hypothesis Testing:
Hypothesis testing was conducted in order to find out whether financial illiteracy was a significant factor at the time of time investmentness makeup decisions were being made. The null hypothesis (H0) was financial literacy did not influence investments decision made by city and rural investors and the alternative (H1) was financial literacy influenced the investment decision. In order to test the hypothesis, chi-square test and t-test at 5% level of significance were conducted.
The results of Chi square test have indicated that the calculated value is greater than the critical value: Thus, the null hypothesis is rejected. Similarly, with the marker of t-test, the difference in financial literacy ranking between urban and rural investors for the financial literacy markets was significant. These results comprise meaningful elements of evidence that financial literacy has a meaning-estimation on how people make investment choices.
This test outcome showed that more financially literate urban investors tend to invest in diversified portfolios including stocks, mutual funds and insurance products. They exploit comparisons between risks and return in order to make decisions which in many ways greatly aided by bank data, on the internet and provided by financial advisors. The less financially literate country investors will on the remote hand opt to put their money on a safe conventional SG. negativism like gold, land and fixed deposits. They make investment decisions, not so much on analysis of the financial products but increasingly on the basis of habit and cultural practice or oral advice.
The null hypothesis is evidently rejected which leads us to the equally tangible conclusion that financial literacy is not facilitating factor but a determining factor in investment behavior concomitantly. These investors are more informed, and knowledgeable and make better decisions, take risks more efficiently, and make long term plans. Meanwhile financial

illiteracy hinders investments and robs people of possibilities offered by a utilisation of the modern financial tools.

Finally, there was an agreement in the hypothesis test and generates questions on whether there is a likely differentiation in aggregate financial literacy dada rural setting. It can create fair lines of investment and resource and advise investment in informal finance and capital and can include rural investors in the financial sector.

Conclusions Overall Results:

This research study conclusively shows that financial literacy play a very important role in investment decision making. The results show that the financial level of information and skills of urban investors who are more informed shows the frequences in other money products stocks, mutual funds and insurance. They also exhibit greater risk-taking behaviour and will also be more likely to have diverse their investment. On the contrary, the less financially literate rural investors who invest in Gold, land or fixed deposits are regarded as secure and conventional investments. They make poor judgment in their decision making are trustful of the current banking system and depending on non-bank sources of advice.

It is revealed that people make their investment decisions that have a direct connection to financial literacy. Organized people who have knowledge of financial concepts are more daring risk plan and calculate the process control their money. It brings to the fore, the necessity of the promotion of the financial education programs, in particular, in the countryside, so as to be better informed as investors to make an investment decision, and active in the new financial market.

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