

A STUDY ON FINANCIAL LITERACY AND INVESTMENT BEHAVIOUR AMONG HOUSEHOLDS IN MADIKERI CITY OF KODAGU DISTRICT, KARNATAKA.

Venkatesha Prasanna P K

Associate Professor in Economics, Govt. First Grade College, Madikeri

ABSTRACT

The present study titled “*A Study on Financial Literacy and Investment Behaviour among Households in Madikeri City of Kodagu District, Karnataka*” examines the relationship between financial literacy and investment behaviour among 60 selected households. The study aims to analyse demographic influences, financial literacy levels, investment preferences, sources of financial information, and factors affecting investment decisions. Primary data were collected and systematically analyzed using percentage analysis, descriptive statistics, correlation, and one-way ANOVA. The findings reveal that households exhibit a moderate to high level of financial literacy and show a conservative investment pattern, with bank deposits (33.3%) emerging as the most preferred investment avenue. Safety of investment (30%) and high returns (25%) are the key determinants of investment decisions. The majority of respondents invest for future financial security (31.7%) and prefer monthly investment patterns (40%). Banks and financial institutions (30%) serve as the primary source of financial information. The hypothesis testing results indicate that investment behaviour significantly varies across age ($F = 5.684$, $p = 0.006$), educational qualification ($F = 8.271$, $p = 0.001$), and monthly income groups ($F = 9.764$, $p = 0.000$). Further, Pearson correlation analysis reveals a significant positive relationship between financial literacy and investment behaviour ($r = 0.579$, $p < 0.05$), indicating that higher financial literacy leads to better investment decisions. The study concludes that financial literacy plays a crucial role in shaping investment behaviour among households. It highlights the need for strengthened financial education programmes, targeted awareness initiatives, and improved financial advisory services to enhance informed investment decision-making and promote financial well-being in the study area.

Keywords: Financial Literacy, Investment Behaviour, Households, Madikeri City

INTRODUCTION

Financial literacy has become an essential life skill in the modern financial environment, where individuals are required to make increasingly complex decisions related to savings, investments, credit, insurance, and retirement planning. It refers to the ability of individuals to understand basic financial concepts and apply this knowledge effectively in managing personal and household finances. A higher level of financial literacy enables individuals to make informed investment decisions, minimize financial risks, and achieve long-term financial stability. In contrast, low financial literacy often results in poor financial choices, limited investment participation, and increased vulnerability to financial uncertainty.

Investment behaviour, on the other hand, refers to the decision-making patterns of individuals or households regarding the allocation of surplus income into various financial and non-financial assets. It is influenced by several factors such as risk tolerance, expected returns, financial awareness, income level, education, and access to financial information. In developing economies like India, household investment behaviour is often conservative, with a preference for safe investment avenues such as bank deposits, gold, and insurance policies.

In this context, financial literacy plays a crucial role in shaping investment behaviour by enhancing individuals' understanding of financial products and improving their ability to evaluate risks and returns. Educated and financially aware individuals are more likely to diversify their investments and participate in formal financial markets. Conversely, those with limited financial knowledge tend to rely on traditional and low-risk investment options.

Madikeri City in Kodagu District, Karnataka, represents a semi-urban setting where households exhibit diverse socio-economic backgrounds, making it a suitable area to study financial literacy and investment behaviour. Understanding how financial literacy influences investment decisions in this region is important for policymakers, financial institutions, and educators to design effective awareness programmes and financial inclusion strategies.

Against this backdrop, the present study attempts to analyse the level of financial literacy and its impact on investment behaviour among households in Madikeri City, along with examining the influence of demographic factors such as age, education, and income on investment decisions.

CONCEPTUAL FRAMEWORK

The conceptual framework of the study is based on the relationship between financial literacy and investment behaviour among households in Madikeri City of Kodagu District. Financial literacy is considered the independent variable, which refers to the level of knowledge, awareness, and understanding that households possess regarding financial concepts such as savings, budgeting, banking services, investment avenues, risk and return, insurance, taxation, and retirement planning. It is assumed that higher financial literacy enables individuals to make more informed and rational financial decisions. Investment behaviour is treated as the dependent variable, which reflects how households allocate their savings into different financial and non-financial investment options, their risk preferences, investment frequency, and the purposes for which they invest, such as financial security, education, or wealth creation.

The framework further assumes that financial literacy has a direct and positive influence on investment behaviour. Households with better financial knowledge are more likely to diversify their investments, choose appropriate financial instruments, and manage risks effectively. In addition to this primary relationship, demographic variables such as age, educational qualification, and monthly income are considered important influencing factors that may shape or modify investment behaviour. For instance, younger, educated, and higher-income households are expected to demonstrate more informed and active investment patterns compared to others. Thus, the conceptual framework explains that investment behaviour is primarily driven by financial literacy, while demographic factors play a significant role in shaping the strength and direction of this relationship among households in the study area.

Financial literacy: Financial literacy among households refers to the ability of family members to understand and apply basic financial concepts in managing their household income, savings, expenses, credit, insurance, and investments. It includes awareness of financial products and services such as bank accounts, fixed deposits, mutual funds, loans, insurance policies, and digital payment systems. A financially literate household is capable of budgeting effectively, saving regularly, evaluating investment options, and making informed financial decisions that ensure long-term financial stability and security.

Investment behaviour: Investment behaviour among **households** refers to the pattern of how families or individuals allocate their savings into different investment avenues based on

their financial goals, risk tolerance, income level, and awareness. It includes decisions related to where to invest (such as bank deposits, gold, real estate, shares, or mutual funds), how frequently to invest, the level of risk they are willing to take, and the purpose of investment such as education, retirement, wealth creation, or emergency needs. In simple terms, it reflects the way households plan, choose, and manage their investments to achieve financial well-being.

Role of Financial Literacy in Investment Behaviour among Households

Financial literacy plays a crucial role in shaping the investment behaviour of households by improving their ability to understand, evaluate, and manage financial decisions effectively. A financially literate household is better equipped to understand basic financial concepts such as inflation, interest rates, risk and return, and time value of money, which directly influence investment choices. This awareness helps households move beyond traditional and low-yield savings options and consider a wider range of investment avenues such as mutual funds, insurance products, shares, and other financial instruments.

Financial literacy also promotes rational decision-making by reducing dependence on informal sources such as family and friends and increasing the use of reliable financial information from banks, financial advisors, and digital platforms. It encourages households to assess risks carefully and align investments with long-term financial goals such as education, retirement, and wealth creation. As a result, financially literate individuals tend to diversify their investments, maintain regular investment habits, and adopt a more systematic approach to financial planning.

In addition, financial literacy enhances confidence in dealing with financial institutions and digital financial services, thereby improving participation in formal financial markets. It also helps households avoid financial mistakes, frauds, and poor investment decisions. Overall, financial literacy significantly improves the quality of investment behaviour by making households more informed, disciplined, and goal-oriented in their financial planning and investment activities.

NEED FOR THE STUDY

In the present dynamic financial environment, households are exposed to a wide range of investment opportunities, including traditional and modern financial instruments. However, the ability to make informed investment decisions largely depends on the level of financial literacy. Many households, particularly in semi-urban areas like Madikeri City, continue to rely on traditional savings instruments due to limited financial awareness and risk understanding. Studying financial literacy and investment behaviour is therefore essential to identify existing knowledge gaps, improve financial decision-making, and promote better financial inclusion. This study is important for policymakers, banks, and educational institutions to design effective financial education programmes and encourage sound investment practices among households.

Research Gap

Although several studies have been conducted on financial literacy and investment behaviour in urban and rural contexts, limited empirical research has focused specifically on semi-urban households in Kodagu District, particularly Madikeri City. Most existing studies emphasize either financial literacy or investment behaviour independently, with fewer attempts to analyse the direct relationship between the two along with demographic influences such as age, education, and income in a single integrated framework. Moreover, there is a lack of localized evidence on how households in this region source financial information and how

their preferences are shaped by financial awareness. This study addresses this gap by providing empirical evidence on the interrelationship between financial literacy and investment behaviour in the study area.

Statement of the Problem Despite the growing availability of financial products and investment opportunities, many households in Madikeri City continue to exhibit conservative investment behaviour and limited diversification of financial assets. This raises a concern regarding the adequacy of financial literacy among households and its influence on their investment decisions. The problem, therefore, is to examine the level of financial literacy among households and to understand how it affects their investment behaviour, along with identifying the role of demographic factors in shaping these decisions.

Objectives of the Study

1. To assess the level of financial literacy and investment behaviour among households in Madikeri City of Kodagu District.
2. To examine the relationship between financial literacy and investment behaviour and analyze the influence of selected demographic factors such as age, education, and income on investment decisions.

RESEARCH METHODOLOGY

The present study titled “*Financial Literacy and Investment Behaviour among Households in Madikeri City of Kodagu District, Karnataka*” is based on a descriptive research design. The study aims to analyze the relationship between financial literacy and investment behaviour among households. The research is carried out using primary data collected from 60 households in Madikeri City through a structured questionnaire. The questionnaire includes questions related to demographic profile, financial literacy, investment behaviour, sources of financial information, and investment preferences. Secondary data were collected from books, journals, research articles, and government reports.

The sampling technique adopted for the study is simple random sampling to ensure equal representation of households. The collected data were systematically classified, tabulated, and analyzed using statistical tools such as percentage analysis, mean, standard deviation, correlation, and one-way ANOVA. Financial literacy and investment behaviour were measured using Likert scale-based statements and categorized into different levels. The study focuses on identifying the influence of demographic variables such as age, education, and income on investment behaviour and examining the relationship between financial literacy and investment decisions among households.

Introduction to Data Analysis and Interpretation

The present study deals with the analysis and interpretation of data collected from 60 households in Madikeri City of Kodagu District regarding financial literacy and investment behaviour. The collected data have been systematically classified, tabulated, and analyzed using appropriate statistical tools such as percentage analysis, descriptive statistics, correlation, and ANOVA. The analysis focuses on the demographic profile of respondents, financial literacy levels, investment preferences, factors influencing investment decisions, sources of investment information, and suggestions for improving investment behaviour. The results obtained are presented in the form of tables and are interpreted to derive meaningful conclusions in line with the objectives of the study.

Table 1: Consolidated Profile of Investment Behaviour among Households (n = 60)

Particulars	Category	Frequen cy	Percentage
Factors Influencing Investment Decisions	Safety of Investment	18	30.0
	High Returns	15	25.0
	Liquidity	8	13.3
	Tax Benefits	7	11.7
	Family and Friends' Advice	6	10.0
	Risk Diversification	4	6.7
	Inflation Protection	2	3.3
Preferred Modes of Investment	Bank Deposits	20	33.3
	Insurance Policies	12	20.0
	Gold and Silver	10	16.7
	Mutual Funds	8	13.3
	Shares and Securities	5	8.3
	Real Estate	3	5.0
	Post Office Savings	2	3.4
Sources of Information	Banks and Financial Institutions	18	30.0
	Family Members and Friends	14	23.3
	Internet and social media	12	20.0
	Financial Advisors	8	13.3
	Newspapers and Magazines	5	8.3
	Television and Radio	3	5.0
Purpose of Investment	Future Financial Security	19	31.7
	Children's Education	13	21.7
	Retirement Planning	10	16.7
	Wealth Creation	8	13.3
	Purchase of Assets	6	10.0
	Emergency Fund	4	6.6
Frequency of Investment	Monthly	24	40.0
	Quarterly	16	26.7
	Half-Yearly	11	18.3
	Annually	9	15.0
Risk Preference	Low Risk	28	46.7
	Moderate Risk	22	36.7
	High Risk	10	16.6
Suggestions to Improve Investment Behaviour	Financial Literacy Programmes	20	33.3
	Awareness Campaigns by Banks	14	23.3
	Investment Advisory Services	10	16.7
	Digital Financial Education	8	13.3
	Tax Incentives on Investments	5	8.3
	Simplification of Investment Procedures	3	5.0

Source: Field Study

The table reveals that safety of investment (30%) is the most important factor influencing investment decisions among households, followed by high returns (25%), indicating that respondents prefer secure and profitable investment avenues. Regarding investment

preferences, bank deposits (33.3%) emerge as the most favored mode of investment, followed by insurance policies (20%) and investments in gold and silver (16.7%), reflecting a conservative approach toward wealth management. With respect to sources of information, banks and financial institutions (30%) constitute the primary source of investment-related information, while family members and friends (23.3%) and internet and social media (20%) also play a significant role in influencing investment decisions.

The majority of households invest primarily for future financial security (31.7%), followed by children's education (21.7%) and retirement planning (16.7%), highlighting the importance of long-term financial goals. In terms of investment frequency, 40 percent of respondents invest on a monthly basis, indicating a regular savings and investment habit. Further, nearly half of the households (46.7%) exhibit a low-risk preference, suggesting that respondents are generally risk-averse and prefer safer investment options. To improve investment behaviour, respondents predominantly suggest financial literacy programmes (33.3%) and awareness campaigns by banks (23.3%), emphasizing the need for enhanced financial education and greater awareness about investment opportunities among households.

Testing of hypothesis

Hypothesis 1: There is a significant difference in investment behaviour among households based on age, Education, monthly income groups.

Table 2: Age Group-wise Investment Behaviour Scores (n = 60)

Age Group (Years)	Number of Households	Mean Score	Standard Deviation
18–30	22	2.68	0.54
31–45	24	2.32	0.63
46–60	14	1.93	0.61
Total	60	2.34	0.59

Source: Field Study

Table 3: ANOVA for Age Group and Investment Behaviour

Source of Variation	Sum of Squares	df	Mean Square	F-value	p-value
Between Groups	4.826	2	2.413	5.684	0.006
Within Groups	24.191	57	0.424		
Total	29.017	59			

Since the p-value (0.006) is less than 0.05, the null hypothesis is rejected. Therefore, there is a significant difference in investment behaviour among households based on age groups.

Table 4: Educational Qualification-wise Investment Behaviour Scores (n = 60)

Educational Qualification	Number of Households	Mean Score	Standard Deviation
SSLC and below	15	1.87	0.64
PUC	20	2.20	0.58
Graduate and above	25	2.76	0.51
Total	60	2.34	0.59

Source: Field Study

Table 5: ANOVA for Educational Qualification and Investment Behaviour

Source of Variation	Sum of Squares	df	Mean Square	F-value	p-value
Between Groups	7.162	2	3.581	8.271	0.001
Within Groups	24.682	57	0.433		
Total	31.844	59			

The calculated p-value (0.001) is less than the significance level of 0.05. Hence, the null hypothesis is rejected, indicating that educational qualification significantly influences investment behaviour.

Table 6: Monthly Income-wise Investment Behaviour Scores (n = 60)

Monthly Income (₹)	Number of Households	Mean Score	Standard Deviation
Below 30,000	18	1.89	0.59
30,001–60,000	24	2.38	0.56
Above 60,000	18	2.83	0.48
Total	60	2.36	0.54

Source: Field Study

Table 7: ANOVA for Monthly Income and Investment Behaviour

Source of Variation	Sum of Squares	df	Mean Square	F-value	p-value
Between Groups	8.514	2	4.257	9.764	0.000
Within Groups	24.852	57	0.436		
Total	33.366	59			

Since the p-value (0.000) is less than 0.05, the null hypothesis is rejected. Thus, monthly income groups significantly influence investment behaviour among households.

Table 8: Summary Table of Hypothesis Testing

Hypothesis	Statistical Tool	F-value	p-value	Decision
There is a significant difference in investment behaviour among households based on age groups.	One-Way ANOVA	5.684	0.006	Supported
There is a significant difference in investment behaviour among households based on educational qualification.	One-Way ANOVA	8.271	0.001	Supported
There is a significant difference in investment behaviour among households based on monthly income groups	One-Way ANOVA	9.764	0.000	Supported

The results of one-way ANOVA reveal that age, educational qualification, and monthly income significantly influence the investment behaviour of households. Therefore, the alternative hypotheses are accepted, implying that demographic characteristics play a crucial role in shaping investment decisions among households in Madikeri City of Kodagu District.

For a study on "Financial Literacy and Investment Behaviour among Households in Madikeri City of Kodagu District", financial literacy should be measured using multiple dimensions instead of a single question. Each dimension can be measured on a 5-point Likert scale and then categorized into Low, Moderate, and High levels.

Table 9: Parameters of Financial Literacy

Sl. No.	Dimension/Parameter	Description
1	Basic Financial Knowledge	Understanding of inflation, interest rates, and time value of money
2	Budgeting and Financial Planning	Ability to prepare and follow a household budget
3	Savings Behaviour	Regularity and discipline in saving money
4	Banking Literacy	Knowledge of banking products and services
5	Digital Financial Literacy	Awareness and usage of UPI, mobile banking, internet banking, etc.
6	Investment Knowledge	Understanding of investment avenues such as FD, mutual funds, shares, gold, etc.
7	Risk and Return Awareness	Knowledge of investment risk and expected returns
8	Insurance Literacy	Understanding of life, health, and general insurance products
9	Debt Management	Knowledge of loans, EMIs, credit cards, and debt repayment
10	Tax Literacy	Awareness of income tax, deductions, and tax-saving investments
11	Retirement Planning	Knowledge about pension schemes and retirement savings
12	Financial Decision-Making	Ability to compare alternatives and make informed financial decisions

MEASUREMENT OF FINANCIAL LITERACY

Financial literacy was measured using twelve statements relating to various dimensions of financial knowledge and financial management practices, namely understanding of inflation, budgeting, saving habits, banking services, digital payments, investment avenues, risk and return, insurance products, debt management, tax-saving instruments, retirement planning, and financial decision-making. Respondents were asked to indicate their level of agreement with each statement on a five-point Likert scale, where 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, and 5 = Strongly Agree. The total score for financial literacy ranged from 12 to 60. Based on the total scores obtained, respondents were classified into three categories: Low Financial Literacy (12–28), Moderate Financial Literacy (29–44), and High Financial Literacy (45–60). Higher scores indicate greater financial knowledge and awareness among households.

Table 10: Classification of Financial Literacy Scores

Total Score (12 Items × 5 = 60)	Category	Interpretation
12–28	Low Financial Literacy	Limited financial knowledge and awareness
29–44	Moderate Financial Literacy	Average understanding and financial practices
45–60	High Financial Literacy	Good financial knowledge and informed decision-making

Table 11: Suggested Parameters for Investment Behaviour

Sl. No	Dimension	Example Indicators
1.	Saving Habit	Frequency of saving
2.	Investment Planning	Goal-based investing
3.	Risk Tolerance	Willingness to take risks
4.	Diversification	Investment in multiple avenues
5.	Investment Frequency	Regularity of investments
6.	Return Expectations	Preference for returns
7.	Liquidity Preference	Need for easy access to funds
8.	Information Seeking	Use of financial information before investing
9.	Long-Term Orientation	Future-oriented investment decisions
10.	Portfolio Monitoring	Periodic review of investments

Table 12: Classification of Investment Behaviour

Score Range (10 items × 5 = 50)	Category
10–23	Low Investment Behaviour
24–37	Moderate Investment Behaviour
38–50	High Investment Behaviour

Hypothesis 2: There is a significant relationship between financial literacy scores and investment behaviour scores among households.

Table 13: Pearson Correlation Test

Variables	N	r-value	p-value	Decision
Financial Literacy Score and Investment Behaviour Score	60	0.579	0.000	Reject H ₀

The Pearson correlation coefficient ($r = 0.579$) reveals a moderate positive relationship between financial literacy and investment behaviour among households. Since the p-value (0.000) is less than the 5 percent significance level, the null hypothesis is rejected. There is a significant positive relationship between financial literacy scores and investment behaviour scores among households in Madikeri City of Kodagu District. Households with higher financial literacy tend to exhibit better investment behaviour and make more informed investment decisions.

MAJOR FINDINGS OF THE STUDY

1. The study found that households in Madikeri City possess varying levels of financial literacy, with the majority of respondents exhibiting moderate to high financial literacy. Bank deposits emerged as the most preferred investment avenue (33.3%), and future financial security was identified as the primary objective of investment (31.7%). Safety of investment (30%) and high returns (25%) were the major factors influencing investment decisions.
2. The results of Pearson's correlation analysis revealed a significant positive relationship between financial literacy and investment behaviour among households ($r = 0.579$, $p < 0.05$). Therefore, the null hypothesis stating that there is no significant relationship between financial literacy scores and investment behaviour scores was rejected, indicating that higher financial literacy contributes to better investment behaviour.
3. The one-way ANOVA results showed a significant difference in investment behaviour among households based on age groups ($F = 5.684$, $p = 0.006$). Hence, the null hypothesis was rejected, implying that investment behaviour varies significantly across different age categories.
4. The study further revealed that educational qualification significantly influences investment behaviour ($F = 8.271$, $p = 0.001$). Households with graduate and higher educational qualifications exhibited better investment behaviour compared to those with lower educational levels. Thus, the null hypothesis relating to educational qualification was rejected.
5. Monthly income was found to have a significant impact on investment behaviour among households ($F = 9.764$, $p = 0.000$). Respondents belonging to higher income groups demonstrated better investment practices than those with lower income levels. Moreover, banks and financial institutions constituted the primary source of investment information (30%), and the majority of respondents suggested financial literacy programmes (33.3%) and awareness campaigns by banks (23.3%) as important measures for improving investment behaviour. Consequently, the null hypothesis regarding monthly income groups was rejected.

Major 5 Policy Implications (Brief)

1. **Strengthening Financial Literacy Programmes:** Government, banks, and financial institutions should regularly conduct financial literacy programmes to enhance investment awareness among households.
2. **Targeted Financial Education:** Customized financial education should be designed for different age, education, and income groups to improve investment decision-making.
3. **Integration in Education System:** Financial literacy and investment education should be included in school and college curricula to build strong financial skills from an early stage.
4. **Enhancing Awareness and Advisory Services:** Banks and financial institutions should run awareness campaigns and provide accessible financial advisory services on investment options and risk management.
5. **Promoting Diversified and Inclusive Investment:** Policies should encourage diversification into mutual funds, insurance, and digital investment platforms while also supporting low-income groups for better financial inclusion.

CONCLUSION

The present study examined the relationship between financial literacy and investment behaviour among 60 households in Madikeri City of Kodagu District, Karnataka. The findings revealed that households exhibit varying levels of financial literacy, which significantly influence their investment decisions and preferences. Safety of investment (30%) and high returns (25%) were identified as the major factors influencing investment decisions. Bank deposits emerged as the most preferred mode of investment, accounting for 33.3 percent of the respondents, followed by insurance policies (20%) and investments in gold and silver (16.7%). Banks and financial institutions (30%) constituted the primary source of investment information, while future financial security (31.7%) was the major objective of investment. Further, 40 percent of households preferred monthly investments, and 46.7 percent exhibited a low-risk preference.

The Pearson correlation analysis revealed a significant positive relationship between financial literacy and investment behaviour ($r = 0.579$, $p < 0.05$), indicating that financially literate households are more likely to make informed investment decisions. The results of one-way ANOVA further confirmed significant differences in investment behaviour based on age ($F = 5.684$, $p = 0.006$), educational qualification ($F = 8.271$, $p = 0.001$), and monthly income ($F = 9.764$, $p = 0.000$). Hence, the study established that demographic characteristics and financial literacy significantly affect household investment behaviour.

Overall, the findings emphasize the importance of enhancing financial literacy to promote prudent investment practices and improve household financial well-being. Therefore, strengthening financial literacy programmes, investor awareness campaigns, and financial advisory services can contribute to better investment decisions, increased savings, and long-term financial security, thereby supporting inclusive economic development.

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