

Financial Literacy and Investment Decision-Making Among Salaried and Non-Salaried Individuals: An Empirical Analysis

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Abstract

Financial literacy has become a central determinant of economic well-being, shaping how individuals manage resources, select investment avenues, and prepare for future financial obligations. Despite increasing financial inclusion initiatives, many individuals—particularly in developing economies—continue to demonstrate limited understanding of essential financial concepts, leading to suboptimal financial decisions and heightened exposure to financial vulnerabilities. This study examines the financial literacy levels and investment behavior of salaried and non-salaried individuals in the Ajmer district using the OECD financial literacy framework. A structured questionnaire was administered to 465 respondents selected through multistage random sampling. Findings reveal moderate yet uneven financial literacy across demographic groups, with salaried individuals exhibiting more stable and conservative investment behavior compared to the relatively risk-tolerant non-salaried segment. Education, occupation, income stability, and household size emerged as significant determinants of financial literacy and investment choices. The study emphasizes the need for targeted financial education initiatives tailored to demographic characteristics to promote responsible financial decision-making and long-term financial well-being.

Keywords: Financial literacy, investment behavior, salaried individuals, non-salaried individuals, risk tolerance, financial education, OECD framework.

1. Introduction

Financial literacy—defined as the knowledge, behavior, and attitudes necessary to make sound financial decisions—is widely recognized as a critical factor in achieving financial security. Individuals with strong financial skills are better equipped to manage income, control expenses, select appropriate investment instruments, avoid excessive debt, and plan for future needs such as education and retirement. Yet, numerous studies highlight that substantial sections of the population lack adequate financial knowledge, resulting in poor financial outcomes such as low savings, high-risk borrowing, and susceptibility to fraud.

Investment decision-making forms a core component of financial well-being. These decisions depend not only on financial literacy but also on demographic characteristics, socio-economic conditions, and psychological tendencies. Salaried and non-salaried individuals often differ in income patterns, risk preferences, and savings capacity, leading to distinct investment behaviors.

The present study explores financial literacy and investment practices in the Ajmer district of India, employing the internationally recognized OECD framework. By comparing salaried and non-salaried individuals, the study aims to offer nuanced insights that can support targeted financial literacy initiatives and regional financial inclusion policies.

2. Review of Literature

Existing literature provides extensive evidence linking financial literacy to investment behavior.

2.1 Investment Behavior of Salaried Individuals

Research indicates that salaried individuals tend to favor low-risk financial products due to stable monthly income and long-term financial planning needs. Studies by Ahuja (2021) and Ansari (2020) reveal preference for fixed deposits, government schemes, and insurance products among salaried employees, with limited participation in market-linked

instruments due to insufficient financial awareness. Other researchers—such as Neena Therasa and S. (2022)—report that risk aversion is particularly pronounced among employees with high household responsibilities.

2.2 Investment Behavior of Non-Salaried Individuals

Non-salaried individuals, who typically operate in less predictable income environments, often display higher risk tolerance. Priti Jaiswal and P.D. (2022) found that business owners and freelance workers are more willing to invest in equities and mutual funds due to entrepreneurial exposure and familiarity with risk. However, inconsistent income may sometimes restrict their ability to make long-term investments.

2.3 Behavioral Finance Influences

Several scholars emphasize the impact of cognitive and psychological factors on investment decisions. Behavioral biases—such as overconfidence, herd mentality, mental accounting, and loss aversion—frequently guide investment choices, especially among individuals with inadequate financial knowledge.

2.4 Demographic Determinants

Age, education, income level, and family size significantly shape investment patterns. Higher education correlates with greater financial literacy, while younger individuals often display stronger affinity toward digital financial platforms and market-linked products.

This literature strongly supports the view that financial literacy is central to making informed investment choices and that demographic characteristics play a significant mediating role.

3. Research Methodology

3.1 Research Design

A descriptive and analytical research design was adopted to assess financial literacy and investment behavior. The OECD financial literacy questionnaire served as the primary data collection tool.

3.2 Sampling Procedure

Convenience sampling was used to select participants from the Ajmer district. The required sample size, calculated using a standard formula with a 95% confidence level, was 385. To improve reliability and account for possible non-responses, 465 valid responses were collected.

3.3 Data Sources

- **Primary data:** Responses from the structured OECD questionnaire
- **Secondary data:** Academic journals, government reports, SEBI and RBI publications, and books related to financial literacy

3.4 Data Analysis

Respondents' financial literacy was scored based on OECD guidelines, covering three areas:

1. **Financial knowledge**
2. **Financial behavior**
3. **Financial attitude**

Those scoring above the sample mean were classified as financially literate.

3.5 Limitations

- Geographical restriction to Ajmer district
- Exclusion of students, retirees, and business owners
- Dependence on self-reported data

- Cross-sectional design preventing assessment of long-term behavioral changes

4. Results

4.1 Demographic Profile

- **Education:** Nearly 48% were undergraduates, while 27% had professional qualifications.
- **Occupation:** 51.2% were non-salaried; 47.5% were salaried.
- **Dependents:** Most respondents had 1–2 dependents, influencing their risk tolerance.

4.2 Financial Literacy Scores

Analysis revealed:

- Moderate overall financial literacy
- Higher financial behavior scores compared to knowledge scores
- Significant lack of understanding regarding inflation, risk diversification, and compound interest
- Positive financial attitudes, indicating openness toward financial education

4.3 Investment Behavior

- **Salaried respondents** preferred low-risk, fixed-return investments such as FDs, insurance, and recurring deposits.
- **Non-salaried respondents** showed greater inclination toward equities, mutual funds, and market-linked instruments.
- **Education** was strongly linked to investment diversification.
- **Income stability** influenced risk appetite, with those having stable incomes demonstrating more conservative behavior.

5. Discussion

The findings affirm the major conclusions from global research: financial literacy plays a decisive role in shaping investment decisions. In the Ajmer district, individuals with higher financial literacy engaged in more informed investment practices, used digital platforms more effectively, and displayed better awareness of risk-return trade-offs.

5.1 Influence of Financial Literacy

Financially literate respondents:

- Diversified portfolios
- Checked investment credentials
- Planned for long-term goals
- Avoided impulsive investment decisions

In contrast, individuals with limited financial knowledge relied more heavily on informal advice, tended to invest in traditional instruments, and demonstrated higher susceptibility to cognitive biases.

5.2 Demographic and Behavioral Factors

- **Education and occupation** were the strongest predictors of financial literacy.
- **Age** influenced digital financial behavior, with younger respondents more willing to explore online investment options.
- **Family responsibilities** reduced risk tolerance.

- **Non-salaried individuals** showed a higher appetite for short-term, high-risk investments.

5.3 Cultural and Social Norms

Consistent with Indian financial culture, gold, real estate, and guaranteed-return products remained popular across respondent categories, often superseding rational financial considerations.

6. Conclusion

The study demonstrates notable disparities in financial literacy and investment patterns between salaried and non-salaried individuals in the Ajmer district. While salaried individuals tend to prioritize stability and long-term security, non-salaried individuals display a higher tolerance for risk and greater interest in market-linked instruments.

Financial literacy emerges as the critical determinant of responsible financial decision-making, with demographic factors such as education, occupation, age, and household size further influencing investment strategies. The findings underscore the need for targeted, demographic-specific financial literacy programs that address existing knowledge gaps and support financially vulnerable groups.

Enhanced financial education—delivered through schools, community organizations, financial institutions, and digital platforms—can empower individuals to make informed, confident investment decisions, thereby contributing to sustainable economic development.

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