

IMPACT OF FINANCIAL LITERACY ON FINANCIAL DECISION MAKING- A STUDY WITH REFERENCE TO RETAIL INVESTORS IN CHENNAI

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ABSTRACT:

The knowledge about financial products is essential to choose optimal portfolio of investment. Basic understanding of financial products is required to make financial decisions. Financially literate people can make well informed financial decisions over several investment options. There are various factors which influence an investor to invest in a selected assets over plethora of assets in today's world.

This study attempts to find out whether investors are having basic understanding of financial concepts and its effect on their investment choices. It also analyzes how individual investors view inflation as a factor affecting decision making or do they consider it at all. The study makes an attempt to find whether investors consider the historical data while choosing their financial assets. A well-structured questionnaire was constructed to collect primary data and the survey was conducted among 423 sample respondents in Chennai.

In this study the investors were divided in to four categories based on their understanding about the financial concepts and how they apply those concepts in financial decision making. It was found that only 11% of the sample respondents follow rational decision making process that is they consider historical data while making financial decisions and were classified under financially literacy Level IV. The findings have direct and indirect implication both in academics, retail investors and also the policy makers. The need for financial literacy is clear from this study.

KEY WORDS: Financial Literacy, Financial Decision Making, Behavioral Finance, Retail Investors.

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