International Journal of Economics, Commerce and Management
United Kingdom Vol. VI, Issue 7, July 2018
http://ijecm.co.uk/ ISSN 2348 0386

INVESTMENT DECISIONS AS RELATED TO ACADEMIC BACKGROUND AND OTHER FACTORS: AN EMPIRICAL ASSESSMENT

Yasmeen Ansari
Assistant Professor, Saudi Electronic University, Kingdom of Saudi Arabia
yasmeen2512@seu.edu.sa

Abstract

Academic background seems to play an important role in influencing one's investment decisions. The higher the academic background, the higher the level of understanding of investment complexities. The purpose of this paper is to examine the relationship of academic background and few other factors influencing the investment decisions of the investors. The findings of the study, based on a random sample of 500 Indian investors, seems to support that academic background and other factors play a significant role in shaping one's financial decisions.

Keywords: Academic Background, Financial Literacy, Financial Education, Financial Knowledge, Investment Decisions

INTRODUCTION

For economic progress, it is not enough for an individual to earn an income; he also needs to make informed and wise decisions about what to do with the money once it reaches his hands. Failure to utilize the money-wisely leads to growing debt, misuse of credit facilities and in the long run slows down economic growth. On the other hand, academic background encourages improved standard of living and a confidence about the future. It assists in sound financial planning–in accumulation of assets, in funding of education and also in planning for retirement – which in turn help build economy (Vijayan, 2006).

This paper aims at studying whether individuals acquiring academic background manage rationally in investment decision-making processes or not. It also, aims at exploring whether academic background contributes to rational behavior and investment decisions or to any other type of decision-making method. So, this paper studies academic background and its relationship with different sources of financial information of the investors, the level of investment knowledge, the preferences of various investment avenues they make, reasons of investment and the apprehension about the investment.

LITERATURE REVIEW

The 1997 Jump$tart survey of high school students have defined “financial literacy” as “the ability to use knowledge and skills to manage one's financial resources effectively for lifetime financial security.” It has been used to refer to knowledge of financial products, knowledge of financial concepts (inflation, compounding, diversification, credit scores), having the mathematical skills or numeracy necessary for effective financial decision making, and being engaged in certain activities such as financial planning (Justine S. Hastings and others, 2013).Financial education is significantly helpful to financial decision making. Norman (1999) stated that financial education is increasingly important and does not simply involve investors. The knowledge acquired on financial issues is enhanced by methods and techniques employed by financial education. Several studies have demonstrated that financial knowledge can be increased through financial literacy and education, but education is not the only factor that can influence making effective financial decisions (Slocombe, Hite, Railsback, Miller, 2011). Lusardi (2012) states that financial education and, therefore, financial literacy increases individuals’ responsibility for people’s financial well-being, whereas Norman (2010) maintains that ‘financial education or financial literacy is imperative in all our dealings’. Carlin & Robinson (2012) argue that decision support was better utilized among groups that received financial literacy, training and financial education and timely decision support are not distinct channels for improving financial decision-making. Parker (2013) states that ‘people learn more about their finances through making decisions rather than through pure financial education.

Norman (2010) quoted that other definitions seem to equate financial literacy with investor literacy. It is about how well you understand the stock market, bonds and other investments. Financial education is different from financial statement analysis and or accounts information. The latter is more professional and thus specific. Financial statements analysis is mainly concerned with the understanding of company accounts and interpretation of the published financial statements to enable legitimate users to make informed economic decisions (Norman, 2006; Abu-Nassar and Rutherford, 1996; Bartlett and Chandler, 1997; Abu and Nasser, 2000a; Mautz, 1968; Lee and Tweedie, 1975a, 1975b, 1976, 1981; Epstein, 1975; Arnold and Moizer, 1984; Day, 1986; Gniewosz, 1990; Epstein and Pava, 1993; Epstein and

Anderson, 1994; Abu-Nasser and Rutherford, 1996; Bartlett and Chandler, 1997; Abu and Nasser, 2000b; Naser and Bar, 2003).

Selim and Asiye (2016) have mentioned some researchers, who linked investment decisions with the academic background instead of financial literacy. While Gutter and Fontes (2006), Brown and Taylor (2007) and Gilliam (2011), emphasize the importance of education factor on risky investment decisions, Masters (1989) and Yao et al. (2011) conclude that the general education level of investors is not always an effective factor. Masters (1989) has shown that, if individuals' information about investment increases, risk-taking is also increasing at the same time. Also, Hallahan et al. (2003) have revealed the relationship between risk tolerance level and financial literacy and education. In a similar view, Guiso and Japelli's (2009) research on Portuguese individual investors have shown that investor behavior and financial literacy is linked in the context of portfolio diversification. Also, Yao et al. (2011) stated that there will be a significant difference between financial literacy and risk perception. Bucher-Koenen and Ziegelmeyer (2011) assert that families with low levels of financial literacy cannot trade in risky markets.

Objectives of the Study

1. To study the relationship between the academic background of the investors and the different sources of financial information of the investors.
2. To study the relationship between the academic background of the investors and the levels of investment knowledge.
3. To study the relationship between the academic background of the investors and the preferences of various investment avenues they make.
4. To study the relationship between the academic background of the investors and the reasons of investment relating to risk coverage, tax benefits, returns, safety and protection from inflation.

Hypotheses of the Study

1. There will not be a significant relationship between the academic background and the sources of financial information of the investors.
2. There will not be a significant relationship between the academic background and the investment knowledge of the investors.
3. There will not be a significant relationship between the academic background and the preferences of investment avenues of the investors.

4. There will not be a significant relationship between the academic background and the reasons of investment relating to risk coverage, tax benefits, returns, safety and protection from inflation.

METHODOLOGY

For the purpose of the study, a descriptive research design was adopted. This study is based on the responses of a sample of 500 Indian Investors. Respondents were selected using random sampling. The data were collected through a self-designed questionnaire and administered to the said sample. The data were analyzed using simple statistical tools like percentages, chi-square test which are processed by statistical software.

ANALYSIS AND FINDINGS

Respondents' Profile

Out of the total sample of 500, academic qualification-wise distribution was: intermediate 21 (4.2%), graduates 149 (29.8%), post-graduates 283 (56.6%) and professionals 47 (9.4%). The professional category included PhDs, MD and M.Phil.

Hypothesis 1: There will not be a significant relationship between the academic background and the sources of financial information of the investors.

Table 1: Sources of Financial Information

Academic Background	TV	Radio	Books	Magazines	News papers	Internet	Investment News letter	Family & Friends	Professional Advisors	N 500
Intermediate	1(4.7)	0(0)	1(4.7)	1(4.7)	6(28.5)	4(19)	2(9.5)	6(28.5)	0(0)	**21**
Graduation	4(2.6)	4(2.6)	18(12.1)	12(8.1)	19(12.7)	29(19.5)	7(4.7)	16(10.7)	40(26.8)	**149**
Post-graduation	42(14.8)	8(2.8)	18(6.3)	33(11.7)	59(20.8)	36(12.7)	8(2.8)	43(15.2)	36(12.7)	**283**
Professionals	8(17)	1(2.1)	3(6.4)	3(6.4)	3(6.4)	10(21.3)	2(4.3)	9(19.1)	8(17)	**47**

Df-24 X^2-58.8 P-0.01

The above table shows significant relationship between the academic background and the sources of financial information. The chi-square value of 58.8 is significant at 0.01 level of confidence. The important sources of financial information influenced by the academic background are TV, Magazines, Newspapers, Internet, Family &Friends and Professional Advisors. Radio seems to be the least preferred source of information for taking the financial decision.

Hypothesis 2: There will not be a significant relationship between the academic background and the investment knowledge of the investors.

Table 2: Investment Knowledge

Academic Background	Minimal	Modest	Moderate	Good	Very Good	N 500
Intermediate	6(28.6)	4(19.04)	2(9.5)	6(28.6)	3(14.3)	**21**
Graduation	29(19.5)	17(11.4)	52(34.9)	40(26.8)	11(7.4)	**149**
Post-graduation	48(17)	39(13.8)	89(31.4)	67(23.7)	40(14.1)	**283**
Professionals	4(8.5)	9(19.1)	20(42.6)	13(27.7)	1(2.1)	**47**

Df-12 X^2-19.8 P-0.05

The second hypothesis was framed to find out the relationship between the academic background and the level of the investment knowledge of the investors. In this regard, as the table no. 2 shows, there seems to be a significant relationship between the level of academic background and investment knowledge. Moderate investment knowledge is influenced most by the academic background (34.9% for graduates, 31.4% for post-graduates and 42.6% for professionals). The relationship between the two factors is significant at 0.05 level of confidence.

Hypothesis 3: There will not be a significant relationship between the academic background and the preferences of investment avenues of the investors.

Table 3: Preferences of Investment Avenues

Academic Background	Stocks	Mutual Funds	Real Estate	Government Securities	Gold	Art & Paintings	N 500
Intermediate	1(4.8)	10(47.6)	2(9.5)	3(14.2)	4(19.04)	1(4.8)	**21**
Graduation	6(4.02)	21(14.1)	29(19.5)	65(43.6)	22(14.8)	6(4.02)	**149**
Post-graduation	15(5.3)	91(32.2)	59(20.8)	77(27.2)	28(9.9)	13(4.6)	**283**
Professionals	0(0)	19(40.4)	5(10.6)	14(29.8)	9(19.1)	0(0)	**47**

Df-15 X^2-40.4 P-0.01

As far as the relationship between the academic background and the types of investment avenues is concerned the most preferred investment avenue influenced by the academic background are mutual funds and government securities. Surprisingly, gold seems to be the less preferred investment avenue by different levels of academic background. As the results show the null hypothesis is rejected at 0.01 level of significance.

Hypothesis 4: There will not be a significant relationship between the academic background and the reasons of investment relating to risk coverage, tax benefits, returns, safety and protection from inflation.

Table 4: Reasons of Investment

Academic Background	Risk Coverage	Tax Benefits	Returns	Safety	Protection from Inflation	N 500
Intermediate	5(23.8)	1(4.8)	10(47.6)	4(19)	1(4.8)	**21**
Graduation	26(17.4)	26(17.4)	25(16.8)	61(40.9)	11(7.3)	**149**
Post-graduation	65(22.9)	30(10.6)	52(18.4)	118(41.7)	18(6.3)	**283**
Professionals	4(8.5)	9(19.1)	18(38.3)	15(31.9)	1(2.1)	**47**

Df-12 X2 -16.5 P-0.1

The findings obtained on fourth hypothesis show that the most preferred reasons by the investors are risk coverage and safety. Statistical analysis shows relationship between the academic background and the reasons of investment is not significant (P-0.1) for the chi-square value of 16.5.

CONCLUSION AND RECOMMENDATIONS

Education is a key to success. Investment patterns are also determined by the academic background. The overall results show the significant relationship between academic background and the investment decisions. Thus, investors should gain good education while dealing with investment market and opportunities. Hence, it is imperative to increase the spread of the financial literacy by persuading customers that they need financial education, to take control of their financial situation, to improve spending habits, to increase their savings/investments for future requirements, for children's higher education, to ensure prudent use of credit facilities and contribute towards growth and stability of the economy. To put it in a nut shell the need of the hour is to make the investor aware and prepared for the need of financial education and ascertaining, that they have access to it.

There is a need for more rigorous, theory-based research on financial decision-making behavior. Stronger links need to be made between theory and empirical work so that the field of personal finance can develop a better understanding of how financial decisions are being made at the individual and household levels. Researchers, students, financial professionals, and educators are encouraged to use this study as a foundation to better understand the existing literature and to identify promising areas for future research.

REFERENCES

Abu BN, Naser K (2000), Empirical evidence on corporate social disclosure (CSD) practices in Jordan. Int. J. Commerce. Manage., 10(3/4): 18-34.

Abu-nassar M, Rutherford BA (1996), External users of financial reports in less developed countries: the case of Jordan. Br. Acct. Rev., 28: 73-87.

Arnold J, Moizer P (1984), A survey of the methods used by UK investment analysts to appraise investment in ordinary shares. Acc. Bus. Res. Summer, pp. 195-207.

Bartlett SA, Chandler RA (1997), The corporate report and the private shareholder: Lee and Tweedie twenty years on. Br. Acct. Rev., 29: 245-261.

Brown, S. Taylor, K. (2007), Education, Risk Preference and Wages, Manuscript, Department of Economics, University of Sheffield, 1-27, 03.02.2016 https://www.researchgate.net/publication/24130245_Education_Risk_Preference_and_Wages.

Bucher-Koenen, T. Ziegelmeyer, M. (2011), “Who Lost the Most? Financial Literacy, Cognitive Abilities and the Financial Crisis”, European.

Carlin B., and Robinson, D., (2012), Financial Education and Timely Decision Support: Lessons from Junior Achievement. American Economic Association, Vol. 1, p.p. 1-5.

Day JFS (1986), The use of annual reports by UK investment analysts. Acct. Bus. Res. Autumn, pp. 295-307.

Epstein MJ (1975), The Usefulness of Annual Reports to Corporate Shareholders, Bureau of Business and Economic Research, California State University, Los Angeles.

Epstein MJ, Anderson RY (1994), The usefulness of annual reports to corporate shareholders in the United States and Australia. Unpublished Paper, British Accounting Association, National Conference at King Alfred’s College, Winchester. p. 1–24.

Epstein MJ, Pava ML (1993), The Shareholder’s Use of Annual corporate Reports, Jai Press Inc, London.

Gilliam, J. (2011), The Influence of Birth Order on Financial Risk Tolerance, 03.02.2016 http://www.academyfinancial.org/wpcontent/uploads/2013/10/1C-Gilliam-Chatterjee.pdf.

Gniewosz G (1990), The share investment decision process and information use: an exploratory case study. Acc. Bus. Res., 20(79): 223-230.

Guiso, L. Japelli, T. (2009), Financial Literacy and Portfolio Diversification, CSEF Working Papers Series, 212, 03.02.2016 http://www.csef.it/WP/wp212.pdf.

Gutter, M. S. Fontes, F. (2006), Racial Differences in Risky Asset Ownership: A Two-Stage Model of the Investment Decision-Making Process, Financial Counseling and Planning, 17 (2), 64-78.

Hallahan, T. Faff, R. McKenzie, M. (2003), An Exploratory Investigation of the Relation between Risk Tolerance Scores and Demographic Characteristics, Journal of Multinational Financial Management, 13(4), 483-502.

Hastings, Justine S, Brigitte C. Madrian, and William L. Skimmyhorn, (2013), Financial Literacy, Financial Education, and Economic Outcomes, Annual Review of Economics, 2013, 5, 347–73.

https://www.ecb.europa.eu/pub/pdf/scpwps/ecbwp1299.pdf?ce13373f9d7d8fc4eb2fffe7e04582b9.

Jump$tart (1997), Coalition for Personal Financial Literacy, “Financial Literacy Shows Slight Improvement among Nation’s High School Students,” Press Release, 2006, Washington, D.C.

Lee TA, Tweedie DP (1976), The private shareholder: his sources of financial information and his understanding of reporting practices. Acc. Bus. Res. Autumn, pp. 304-314.

Lusardi, A., (2012), Numeracy, Financial Literacy and Financial Decision-making, Numeracy, Vol.5, No.1, p.p. 6-8.

Masters, R. (1989), Study Examines Investors' Risk-Taking Propensities, Journal of Financial Planning, 2(3), 151-155.

Mautz RK (1968), Financial Reporting by Diversified Companies, Financial Executive Research Foundations, New York.

Nasser K, Nuseibeh R. (2003), Quality of financial reporting: Evidence from the listed Saudi nonfinancial companies. inter. J. acc., 38 (2): 41-69.

Norman A., S., (1999), The Role of Financial Education Literacy in Improving Saving Among Individuals in the Commonwealth Currents, Marlborough Commonwealth, Vol. 11, p.p.47-57.

Norman A., S., (2010), Importance of Financial Education in making Informed Decision on Spending, Journal of Economics and International Finance; Vol 2, No. 2, p.p.199-207.

Norman AS (2006), Financial information as a consideration for decision making in stock exchange investment. MBA Thesis. Mzumbe University.

Parker, T. (2013), Decision-making key to Financial Literacy, http://www.nzherald.co.nz/business/news (accessed26/03/2013).

Selim A., Asiye N. Z. (2016), "Influence of Financial Literacy and Risk Perception on Choice of Investment", Conference on International Strategic Management, , Antalya, Turkey.

Slocombe, E., Hite, G., Railsback, B. and Miller, S. (2011), Personal Financial Education in Recessionary Timer, Journal of Education for Business, Vol. 86, No. 5, p.p. 253-257.

Vijayan, T. S. (2006), "Organization for Economic Cooperation & Development (OECD)", Conference on Financial Education co-hosted by PFRDA at ITC Maurya Sheraton, Delhi.

Yao, R. Sharpe, D.L. Wang, F. (2011). "Decomposing the Age Effect on Risk Tolerance", The Journal of Socio-Economics, 40(6), 879-887.