CHAPTER I

INTRODUCTION AND DESIGN OF THE STUDY

1.1 Introduction:

Classical, neoclassical and modern economists have given an importance to the studies in economic development. We observed different economists having different thoughts and strategies for development, which can be contrast or like-minded. After Second World War, economist started to evaluate the questions of development of underdeveloped countries. After the two world wars and global crisis of 1930, all the countries became alert and felt necessity to reconstruct their own economy. Many countries got freedom after World War II. They made their own plans and policy to increase national wealth. Every country was struggling for the development of people. Initially, Russia started planning for development from 1928. Thereafter, other countries accepted planning & tried to reach near development. After long discussion, Some Economists like, Adam Smith, Ricardo, Malthus, Mill, Marx, Schumpeter, Keynes and Rostov defined the concept of economic development and economic growth. These explanations have been given in the form of some theories of Economic development.

Economic growth plus change is called Economic development. Development is concerned with underdevelopment countries and growth is concerned with development countries. India has considered some indicators for measuring development. One of the crucial variable is Gross Domestic Product (GDP) in which sector-wise indicators are drawn. GDP is calculated on the basis of Agricultural, Industrial and Service sector output which are agreed by world’s economist. It is observed that Sector composition pattern of developed countries is almost same with one another. Growth rate of Service sector in Developed countries is largest than agriculture and industry sector. It is above 70 percent. Developed countries have been giving an importance to service sector to increase their economic growth since their independence. In India, planning for economic development started in 1951 with the
inception of the First Five Year Plan. Planning Commission was established for making plan and decided to which sector should be focused in next Five Year Plan.

It is found that there is heterogeneity in annual growth rates of GDP from 1951 up to 2013. Means, there is no similarity in India’s growth rate. One of the major reasons for this unequal growth rate might be lacking of proper policy by Government which stimulates growth of agriculture, industrial and service sector. GDP is affected by agriculture, industry and service sector which are used in the calculation of growth rate. It has noted that service sector’s growth rate was very low in 1995. 1996 onwards the rate has been increased due to acceptance of New Economic Policy. India has accepted Globalization, Liberalization and Privatization. Hence, many sectors became progressive with sustainable growth path. Growth rate of Service sector was recorded 10.91 percent in 2007-08. At the same time, growth rate of India recorded as highest 9.57 percent. It shows the highest contribution of service sector in the GDP growth rate. It shows the highest contribution of service sector in the GDP growth rate. Initially, Agriculture sector was dominant on other sectors but since last one or two decade service sector is increasing rapidly year by year. Service sector comprises of following sub sectors like, Trade, hotels, Restaurants, Transport, storage, communication, Financing, Insurance, Real Estate, Business Services, Community, social and personal Services. These sub sectors are classified into three major parts as follows

1) Trade, hotels, transport & Communication:

2) Financing, Insurance, Real Estate & Business Services:

3) Community, Social & Personal Services:

Let us break down the role of these sub sectors in Gross Domestic Product in 2004-2012.
Table 1.1 Share of Different Services in GDP at Factor Cost 1

<table>
<thead>
<tr>
<th>Sub Sectors</th>
<th>Years</th>
<th>(Current prices)</th>
<th>(GDP in Percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Trade, hotels, Transport, &amp; comm.</td>
<td>Financing, insurance, real estate &amp; business services</td>
<td>Community, social &amp; personal services</td>
</tr>
<tr>
<td>2004-05</td>
<td>24.8</td>
<td>13.2</td>
<td>14.1</td>
</tr>
<tr>
<td>2005-06</td>
<td>5.5</td>
<td>13.4</td>
<td>14.3</td>
</tr>
<tr>
<td>2006-07</td>
<td>26.2</td>
<td>13.5</td>
<td>14.3</td>
</tr>
<tr>
<td>2007-08</td>
<td>27.5</td>
<td>14.7</td>
<td>13.4</td>
</tr>
<tr>
<td>2008-09</td>
<td>28.6</td>
<td>14.8</td>
<td>13.9</td>
</tr>
<tr>
<td>2009-10</td>
<td>27.8</td>
<td>14.7</td>
<td>13</td>
</tr>
<tr>
<td>2010-11</td>
<td>27.3</td>
<td>17.2</td>
<td>12.8</td>
</tr>
<tr>
<td>2011-12</td>
<td>27.5</td>
<td>18.1</td>
<td>12.8</td>
</tr>
<tr>
<td>2012-13</td>
<td>27.8</td>
<td>18.7</td>
<td>13</td>
</tr>
</tbody>
</table>

Source: Central Statistical Organisation (CSO) Year 2012-2013

As per the provisional estimates of the Central Statistics Office (CSO), share of trade, hotels, transport and communication was 24.8 percent in 2004-05, thereafter in 2012-13 this percentage increased by 3.5 percent. Share of community, Social and personal services in the GDP was recorded as 14.1 percent in 2004-05. Thereafter, share of this sector shown declining trend from 2004 up to 2013. It is registered 13 percent in year 2012-13. There was no progress as such in this sector. Apart of these two sectors, the sector of Financing, Insurance, Real Estate and Business Services progressed significantly in last decade. It had recorded 13.2 percent share in 2004-05 and increased by 5.5 percent in 2012-2013. Each sector of financial sector is more influence on one another. Therefore, It must be studied the role of financial sector in the service sector. How it contribute in national income and development of country. While telling the importance of service sector; it is seemed that growth rate service sector of developed countries have been increased by virtue of expansion in financial and insurance sector. Hence, it is necessary to highlight the subsectors of services sector.
Development of service sector is mainly depends upon the financial system of concerned country. What type of financial system is being run by country? Does this financial system applicable for investors and savers? Is this financial system stimulated investors or savers? These questions give answer about the important of financial system for investors and savers. Investor and Saver are playing vital role in circulation income flow of money. It is the responsibility of Government to provide services for accumulation, circulation of money. Economic growth and development of any country depends upon a well-knit financial system. Financial system includes a set of sub-system of financial institutions, financial markets, financial instruments and services which help in the formation of capital. It provides a mechanism by which savings are transformed into investments. The financial system is characterized by the presence of an integrated, organized, regulated financial markets, and institutions that meet the short term and long term financial needs of both the households and corporate sector. Both financial markets and financial institutions play an important role in the financial system by rendering various financial services to the community. Financial system serves as link between savers and investors. Thus, it helps in lowering the cost of transactions and increase returns, reduced cost motivates people to save more. It provides detailed information to the operators in the market such as individual, business house and government etc. The following are the four major components that comprise the Indian Financial system;

1) Financial institutions
2) Financial markets
3) Financial Instruments/Assets/securities
4) Financial Services

1.2 Components of Indian Financial System:

Indian Financial System is divided in following four parts.

A) Financial Institutions:

1) Banking Institutions: 1) Commercial banks 2) Co-operative Banks

   Commercial Banks: Public sector, Private sector, RRB, Foreign Banks.

2) Non-Banking Financial institutions: 1) Development Finance Institutions

   2) Entities
3) **Development Finance Institutions**: (Development Banks, All India, state level, Investment Institutions (LIC, GIC and UTI), Specialised Institutions.

4) **Entities**: 1) Non-banking Finance Company (Equipment Leasing, Hire-Purchase, Investment, Loan) 2) MBFC’s and 3) MNBC’s.

**B) Financial Markets**: 1) **Money Market** 2) **Capital Market**

1) **Money Market**: (Call Money Market, Treasury Bills, Commercial Bills, Commercial papers and CDs)

2) **Capital Market**: (Primary, Secondary and Derivative)

**C) Financial Instruments**:

1) **Term**: (Short, Medium and Long)

2) **Type**: (Primary securities, Secondary securities (Equity, Preference debt and Innovative instruments)

**D) Financial Services**:

1) **Asset/fund based**: (leasing, Hire purchase, consumer credit, bill discounting, venture capital, housing finance, insurance and factoring

2) **Fee based**: Merchant Banking, credit rating, stock broking and mergers.

In a free market economy, there exist a number of institutions which are Commercial, Co-operative banks, Development Finance institutions and Financial Markets. All the households are mostly deposited their money in financial institutions and financial markets in the form of saving and investment. The savings of the households is very important portion for capital formation in the country. In India, saving contributes 29 percent of Gross Domestic Product (GDP). Excess of income over expenditure by any economic unit is called savings. Savings is done by abstaining from present consumption for future use. In fact, sometimes savings automatically come from households as a matter of habit. When this excess fund (savings) is employed with an aim of achieving additional income in value it is called investment. Gross Domestic Savings is divided into household sector, private and public sector. Household sector shows largest portion in Gross Domestic Savings. This sector is divided in two sectors namely Financial and Physical Savings.
1.3 India’s Gross Domestic Savings: A Comparison with Selected Countries

India’s Gross Domestic Savings rates have been consistently rising since 1990. India’s savings rate appears to be substantially high among leading countries in the world. In 2009, India’s savings rate was 33.8 percent of GDP which is higher than United States (11.4 percent), United Kingdom (11.2 percent), France (17 percent), Germany (21.4 percent), and Japan (20.7 percent) however; it is lower than China (52.1 percent), Malaysia (36 percent), and Singapore (47 percent). Some of the countries like Indonesia (33.8 percent), Thailand (32.4 percent) and Korea (29.8 percent) whose savings rates observed to be similar to that of India’s savings rate. India and China are the countries with the highest savings rate in the world during 2000 to 2007. It is to be noted that the savings rates in India, China and Singapore observed upward trend whereas the savings rates have declined in other leading countries during the same period. Undoubtedly, China’s savings rate substantially high compare to all countries in the world. China’s savings rate is depending on household, corporate and government sector. There are number of reasons which might have affected savings positively in above three sectors. These are: corporate improvement or redesign, migration of labour, youth dependency and savings habit among household.

It is observed that over the last four decades, The Monetary and Fiscal policy has been positively impacted on savings in India. The reforms in secondary and tertiary sectors also caused trends in savings. Since 1991, India gradually executed liberalization, privatization and globalization which propelled trade and promoted increase in savings in India. During global financial crises, the India’s growth rate declined and increased volatility in financial sector. However, effect on India was not much serious due to proper fiscal and monetary policy that was executed by Government and Reserve Bank of India (RBI).

1.4 Trends and Composition of India’s Gross Domestic Savings (GDS):

Gross Domestic Savings has been consistently rising since 1950. It is observed that share of household sector savings is more than private corporate and public sector savings in the GDS. However, after 1991, the share of private corporate sector savings
in GDS has been rising more rapidly than public sector. It is due to new economic policy adopted by Government in 1991. During 2002-04, there have been troughs in the trends of savings rates. The savings rates of private corporate sector have been stable at two percent till 1980. Thereafter, it rose to 9 percent in 2008. The private corporate sector substantially benefited due to the economic growth experienced post 2000. Their profits got converted into savings. The public sector savings rate declined by 5 percent in 1980 and it became negative in 1990. After a long time; it became positive in 2004 and augmented to 5 percent in 2007-08. It all happened due to the fiscal responsibility legislation and reforms in the public enterprise sector. The household savings rate increased substantially due to the Sixth Pay Commission. The household savings include financial and physical savings. It is observed that financial assets are less than the financial liabilities with the households. The physical savings rose up substantially in 2000. It is observed that total household savings rate increased consistently during 1970 to 2000. The household sector gave prefer to save in physical assets in 2000-01. Thereafter, during 2000 to 2011, savings in financial assets remained constant and in physical assets declined marginally. Therefore, household savings rate were accelerated by 23 percent during 2000-2011. However, the physical assets have been funded by loans and advances during 2004 to 2007, which is caused by the real estate growth.

1.5 Financial Assets in the Household Sector:

The share of currency in financial assets was declined by 11 percent during 2005-2011, which was 14 percent in 1970. This happened due to the awareness of recent banking facility, reduced share of agriculture and inflation. The bank deposits are important instruments of savings which has dominant share in financial assets since long time. The share of life insurance fund as financial asset increased from 9 percent to 17.4 percent during 1970-2000. Thereafter, it decreased by three percent in the period 2000-05, again reached to 19.9 percent during 2005-11. The share of provident and pension funds was 19.6 percent in 1970, which has decreased consistently in every decade and finally in the period 2005-11, it was 10.3 percent. The small savings increased over the years to 19.5 percent, especially, during 2000-05 and thereafter suddenly it decreased sharply to 9.5 percent in the period 2005-11. The contribution of shares and debentures in the financial assets was small (1.5 percent) in 1970. However it got accelerated in 1990. All this is happening due to the developments in
capital market. The investments shares and debentures in increased largely during 2005-06 to 2007-08. There was no much impact of global financial crisis on investment in shares and debentures. However, Investments in the shares and debentures as financial assets have been consistently rising. In short, it is observed that savings in bank deposits as financial assets have been very popular and its share in overall household savings is largest. The savings in life insurance policies also increased over a period of time; perhaps the savings in provident fund and non-banking financial instruments have been declined over the years. The savings in share and debentures have been appeared very small earlier which has recently increased. This study is tried to understand why there is no similarity among financial assets regarding their growth. Savings habit of the household is very crucial factor which effects on the changes of financial assets of household. The present study analyses the various factors like, people’s desire, preference to financial assets, previous knowledge regarding investment, their ability to think, risk perception level which can be helpful for giving preference to investment and taking proper decisions. Some studies have proved that Social, Demographical and Psychological factors are also responsible to be changes in financial assets of the households. These factors are substantially important when people take decisions relating to savings and investment. Following investment avenues are considered for the present study about behavior of households in decision making about savings and investment.3

1.6 Household Investment Avenues:

Table No. 1.2 Household Investment Avenues:

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Financial</th>
<th>Physical</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Saving Account, Fixed Deposit in Bank</td>
<td>Real Estate</td>
</tr>
<tr>
<td>2.</td>
<td>Public Provident Fund, Government Bond</td>
<td>Gold</td>
</tr>
<tr>
<td>3.</td>
<td>Debentures, Post office,</td>
<td>Silver</td>
</tr>
<tr>
<td>4.</td>
<td>Mutual Fund, Life Insurance, Chit Fund, Equity</td>
<td>Commodity</td>
</tr>
</tbody>
</table>

It is analyzed the changes in Financial Assets (Currency, bank deposits, Life Insurance, Non-Banking Deposits and Provident Fund and Shares) of household sector with the help of the table 1.2 as shown below.

**Table 1.3 : Changes in Financial Assets of the Household Sector**

(At Current Prices)

<table>
<thead>
<tr>
<th>Year</th>
<th>Currency</th>
<th>Bank Deposit</th>
<th>Non-Banking Deposit</th>
<th>Life Insurance</th>
<th>Provident And Pension fund</th>
<th>Shares &amp; Debentures</th>
<th>Changes in Financial assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012-13</td>
<td>1121.32</td>
<td>5965.64</td>
<td>204.11</td>
<td>1794.69</td>
<td>1596.45</td>
<td>344.48</td>
<td>11026.69</td>
</tr>
<tr>
<td>2011-12</td>
<td>1089.27</td>
<td>5281.51</td>
<td>208.94</td>
<td>1892.93</td>
<td>1363.98</td>
<td>-44.94</td>
<td>9791.69</td>
</tr>
<tr>
<td>2010-11</td>
<td>1371.31</td>
<td>5482.99</td>
<td>50.99</td>
<td>2101.02</td>
<td>1411.39</td>
<td>17.29</td>
<td>10434.99</td>
</tr>
<tr>
<td>2009-10</td>
<td>969.40</td>
<td>3981.41</td>
<td>185.16</td>
<td>2598.21</td>
<td>1298.49</td>
<td>448.41</td>
<td>9481.08</td>
</tr>
<tr>
<td>2008-09</td>
<td>921.88</td>
<td>4178.33</td>
<td>147.42</td>
<td>1528.51</td>
<td>733.98</td>
<td>-23.33</td>
<td>7486.89</td>
</tr>
<tr>
<td>2007-08</td>
<td>812.78</td>
<td>3890.08</td>
<td>12.86</td>
<td>1698.48</td>
<td>715.44</td>
<td>743.08</td>
<td>7872.72</td>
</tr>
<tr>
<td>2006-07</td>
<td>671.94</td>
<td>4292.82</td>
<td>45.84</td>
<td>1148.51</td>
<td>725.03</td>
<td>508.47</td>
<td>7392.61</td>
</tr>
<tr>
<td>2005-06</td>
<td>521.51</td>
<td>2657.16</td>
<td>5.22</td>
<td>834.94</td>
<td>619.50</td>
<td>338.57</td>
<td>4976.9</td>
</tr>
<tr>
<td>2004-05</td>
<td>369.77</td>
<td>1750.45</td>
<td>0.83</td>
<td>679.86</td>
<td>557.94</td>
<td>81.13</td>
<td>3439.98</td>
</tr>
<tr>
<td>2003-04</td>
<td>426.75</td>
<td>1559.34</td>
<td>19.45</td>
<td>522.40</td>
<td>489.52</td>
<td>90.78</td>
<td>3108.24</td>
</tr>
<tr>
<td>2002-03</td>
<td>286.32</td>
<td>1226.97</td>
<td>124.96</td>
<td>520.09</td>
<td>459.46</td>
<td>71.23</td>
<td>2689.03</td>
</tr>
<tr>
<td>2001-02</td>
<td>281.56</td>
<td>1130.33</td>
<td>-3.47</td>
<td>412.37</td>
<td>442.23</td>
<td>98.34</td>
<td>2361.36</td>
</tr>
<tr>
<td>2000-01</td>
<td>156.32</td>
<td>947.09</td>
<td>30.04</td>
<td>338.61</td>
<td>338.61</td>
<td>111.48</td>
<td>1922.15</td>
</tr>
</tbody>
</table>

*Source: Central Statistics Office (CSO), Year 2012-13.*

For understanding the approach of investor, it must be understand the study of recent data of financial assets of household sector. The Table 1.2 shows that contribution of all financial assets in growth of household sector. How financial assets of household sector are being changed. It gives the information of which investment avenues is more contributed than others in the household sector. This table clearly indicates that the contribution of bank deposits and life insurance co-operation is more than share.
and debentures. But here, it must be noted that there is fluctuation in only the data of share and debentures during 2001-2012. Other financial assets are growing step by step in every year.

The question is generally asked that why investors give preference to particular some investment avenues? What are the factors are responsible for changing the financial assets of household sector? Does this the same strategy is used by investors in the world? Why do investors give more preference to bank deposits and life insurance as the considering the latest data of financial assets of household sector in India? Have all investors same attitude, risk perception level regarding saving and investment? If they think differently, which investors are mostly responsible for fluctuation in the financial assets? To get answer of all above questions, it needs to be understood and study of behavioural approaches of investors which are accepted by some economists, psychologist and sociologist.

1.7 Behavioural Approach of Investors:

Behavioural finance is such discipline, which provides standard theories of finance by introducing behavioral aspects to the investment decision. The emerging field of behavioural finance seeks to understand and predict the systematic financial implications of psychological decision process of investors. Behavioural Finance helps the investor to guide portfolio allocation decisions, both by helping us to understand the kinds of errors that investors make in managing their portfolio. Investment decision, risk attitude, behavioural biases, investor’s savings and investment objectives, psychological, personal and social factors are very important components which can be helpful for increasing savings and investment rate in India. Most of the studies have shown the positive correlation between above factors and savings. It before 1970’s, investors used to think rationally; but nowadays, investors is thinking with the new discipline of Behavioural Finance. It has become popular in the discipline of Economics and Finance. Behavioural Finance is related to the psychology which involves the study of the mind of an investor. Following factors influences Investment decision.
Table 1.4: Factors Influencing Investors’ Decision Making

<table>
<thead>
<tr>
<th>Psychological and Personal Factors</th>
<th>Investment Environment Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Risk attitude</td>
<td>1. Accounting Information</td>
</tr>
<tr>
<td>2. Savings and Investment objectives,</td>
<td>2. Economic Factors</td>
</tr>
<tr>
<td>3. Demographics</td>
<td>3. Investment Alternatives</td>
</tr>
<tr>
<td>4. Emotions</td>
<td>4. Industry Specific Factors</td>
</tr>
<tr>
<td>5. Feelings</td>
<td>5. Recommendations from family and peers</td>
</tr>
<tr>
<td>7. Personality</td>
<td>7. Sources of Information</td>
</tr>
<tr>
<td>8. Risk Tolerance level</td>
<td></td>
</tr>
</tbody>
</table>


1.8 Framework of Behavioural Finance:

A person’s behaviour is affected by the behavior of others. How do we behave, how do we share our thoughts and feelings are called social influence. The social influence is also equally important factor which affects investor’s decision making or preferences to investment avenues. People do not take investment decisions independently. Either they take advice from family members, friends, relatives or financial planners. The personal attributes of people also affect investment preferences. The personal attributes like Age, Income, Occupation, Education, and marital status etc.
The following studies have found some important social factors which influence the decision making of individual investors, which are as follows:

### 1.9 Social Factors Influence on Decision Making of Individual Investors:

**A) Herding:** According to Hirshleifer, Subrahmanyam, and Titman (1994), this is the behavior when the psychology of investors is influenced by animal behavior, where investors follow the action of a group, ignoring their intuition and confidence. In this point of view investor may or may not be educated but they do not study about the investment avenues only they follow to others. One reason is that people are social and want to be accepted and recognized by the society rather than stand alone. Under
some conditions, investors will focus only on a subset of securities ‘herding’, while neglecting other securities with identical exogenous characteristics.

B) Information Cascades: Information Cascades is the phenomenon which rejects the hypothesis of incorporating information in the stock prices quickly; hence, there is always a chance of arbitraging in the market. According to Shiller (2000), the role of news or events in affecting the market seems often to be delayed, and have the effect of setting in motion a sequence of public attentions. These attentions may be to images or stories, or to facts that may already have been well known. The facts may previously have been ignored or judged inconsequential, but they can attain newfound prominence in the wake of breaking news. These sequences of attention may be called cascades, as one focus of attention leads to attention to another, and then another.

C) Contagion Biases: Such type of biases show the investors preference for local and inclination towards communism. In this phenomenon, investors tilt their portfolio toward local stocks. The local preference of funds provides a unique setting for studying the various explanations of home bias. One strand of research emphasized that local investments are based on value-relevant information, while another argued that the local preference simply stems from investors choosing companies they are familiar with, though not necessarily particularly informed about. Many studies provide evidence that investors hold mostly domestic securities, despite the significant benefit from international diversification.

D) Imitations: It is the social behavior of people; they follow the behavior of other people. What decisions is taken from them, whom do they ask before investing the money in particular investment avenues. People follow the action of others like those of friends, family members, and peer groups. Word of mouth and feedback theory is being applied here in the individual decision making.6

1.10 Behavioural Biases:

Decision making process of an investor is concerned different types of biases or errors. A behavior bias is a departure from rational behavior. It has offered much needed awareness in how, why investor thoughts and feelings or biases influences financial decision making. Behavioural biases are the mistakes that are done by investors while taking investment decisions. These biases vary from investor to investor and can be clubbed into three broad categories: Errors due to the use of
heuristics during the decision making process, errors which influence decision making are grouped as prospect theory (Tversky & Kahneman, 1974), and overconfidence.

A) **Heuristics:** The word heuristics was first used in psychology by Newell and Simon (1972) to describe it as a simple process that replaces the complex algorithms. Whenever investors make an investment decision, a number of investment alternatives are available to them. It is not possible for them to process all the information due to limited capacity of processing the information and constraints based on the external environment, also known as bounded rationality (Simon, 1990). So, in order to reduce the efforts associated with analyzing the complex information related to all available alternatives, investors tend to use shortcuts to choose the best alternatives. The mental shortcuts or “Rule of Thumb” are known as heuristics.

The use of heuristics methods are done by people for reducing the complexity in investment, excess information. Investment decisions are taken on the basis of past experiences in heuristics. Investors can use shortcuts to decrease the amount of information with the help of heuristics. Tversky and Kahneman suggested that heuristics are related to cognitive biases. Main heuristics defined by Kahneman, Slovic, and Tversky (1982) are representativeness, availability, anchoring, and adjustment.

a) **Representativeness:** Representative bias means making the investment decision based on representative characteristics of an investment option rather than analyzing the underlying circumstances. For example, an investor normally thinks that investment in a familiar company would be better than investing the funds in an unknown company, which may be subjectively true. Investors keep faith on companies which obtained high ranks than others. Investors choose such stocks which have desirable qualities. Sometimes, company’s name determines representative bias. Many studies have shown that such type of bias is not only seems to individual investors, but also influences the behaviour of institutional investors like, brokers, groups, and agents.

b) **Availability Bias:** Investors or people in general, are more inclined to act upon information which is easily available to them. Availability heuristics
operates on the notion that “if you can think of it, then it must be important”. For example, suppose a person goes to the market for shopping, he or she mostly visits those shops which are close to his/her home. In a similar way, investors who are influenced by this bias normally invest in domestic stocks due to easy availability of such stocks.

**c) Anchoring and Adjustment:** Anchoring means a tendency to attach our thoughts to a reference point like a specific price level for a stock or bond, whether it may be relevant to a decision or not. Investors’ decision making is based on a reference point. Highest stock prices in the previous year are often selected as a reference point. Anchoring is a behavioural anomaly that occurs when an individual relies more on a specific price of information.

**B) Prospect Theory:** It provides a psychological basis to behavioural approaches for portfolio selection. It was developed by two psychologists- Daniel Kahneman and Amos Tversky in 1979. Loss aversion, regret aversion, and mental accountings are the underlying factors of the disposition effect. Chandra and Kumar (2011) and Masomi and Ghayekhloo (2011) have discussed the various aspects of the prospect theory.

**a) Loss Aversion:** Loss aversion is the result of “value function” given by Kahneman and Tversky (1979). An investor is said to be loss averse if he/she pays more attention to losses than to gains of equal size. Coval and Shumway (2005) studied that the extent of loss aversion influences the frequency with which the investors evaluated their portfolio and also found that investors who are loss averse will either not participate in equity markets or will allocate a small portion of their wealth in equities.

**b) Regret Aversion:** Regret is the feeling associated with the ex-post knowledge that a different past decision would have fared better than the one chose. Shefrin and Statman (1985) stated regret as a factor of disposition effect because the pain of realizing a loss is much more than the pleasure of having a gain of an equal amount.

**c) Mental Accounting:** Mental accounting means rather than focusing on overall portfolio return, investors usually make separate accounts for each investment in their mind. They treat each account individually in order to avoid risks, but this sometimes decreases the overall returns of the portfolio. According to Barberis and Thaler
(2002), the process by which individuals formulate decision problems for themselves is known as mental accounting.

C) Overconfidence: Overconfidence means investors’ tendency to overestimate their abilities and knowledge while making investment decisions. Many biases lead to overconfidence.⁷

1.11 Importance of the Study:

The Behavioural Finance is the application of psychological approach to Economics and Finance. The behavioural finance deals with psychological influence of investors’ behaviour with respect to financial decision making. This study deals with the behavioural approach of investors’ regarding investment and saving. The heterogeneous groups are considered as samples for the present research which is figured out their psychological views about investment avenues. This study brings out importance of financial education in a society. The present study is an attempt to explore the objectives of investors for investment, their objectives of saving, constraints and risk profile of investments. Addition to this, study also discusses influencing factors on the decision making of investors. Present study is an attempt to explore the objectives of investors for investment, their objectives of saving, constraints and risk profile of investments. Addition to this, study also discusses influencing factors on the decision making of investors. The behavioural factors primarily include behavioural biases and personal characteristics of an investor like personality, attitude, risk tolerance, and demographic factors. The behavioural finance has recently grabbed the attention of researchers in the area of finance. It is observed that the financial education work as a multiplier in an economy. A well-educated household would resort to regular savings, which in turn would lead to investment in right channels and income generation. Thus, the financial well-being of individual will in turn increase the welfare of the society.

1.12 Scope of the Study:

The study deals with the behavioural aspects of investors about the preference to financial investment avenues. Nanded city has been selected as area for the study. The Investors are stratified in the form of salaried and self-employed. The employees of government and semi-governments in which includes Zilla Parishad, Municipal Corporation, Collector Office, teachers and academicians are chosen from salaried
group of investors. The self-employed investors are selected from the professions of health, engineering, legal and commercial activities.

1.13 Statement of the Problem:

It seems that the larger proportion of financial illiteracy found in educated as well as uneducated people in the society. India currently does not have a formal financial literacy programme; about a half of India’s adult population does not have access to formal banking services. It is observed that there is no similarity among financial assets in India. Financial assets like Bank deposits and Life insurance are consistently increasing since 1951. In this connection, there is less contribution of share market, mutual fund, or other investment avenues. India’s savings rate is dependent on household, private and public sector. But in India, it is observed that the household sector is growing and other two sectors are in deficit. It felt necessary to study the profitable avenues available in the market as well as behavioural approaches of various types of investors about the preferences to investment. Objectives and the hypothesis of the study are stated as follows:

1.14 Objectives of the Study:

1) To understand the various investment avenues in India

2) To study the theoretical explanation on investment decision making and sources of investment information.

3) To search out the behavioral approach of investors about their preferences towards financial investment

4) To examine age, income and occupation wise proportion of investors to financial investment

5) To figure out the saving and investment objectives of salaried and self-employed investors

6) To analysis approach of salaried and self-employed investors about the purpose and source of investment

7) To give suggestions about the financial investment
1.15 Hypothesis:

1.15.1. The person who gets high income salary, always give preference to risk investment avenues.

This hypothesis is rejected, high income salaried group give preference to investments with low risk avenues and self-employed group give preference to traditional investment instruments but not to highly risky investment instruments.

1.15.2. The importance of traditional investment is getting reduced.

Result: This hypothesis is rejected, traditional investment is observed to be increasing, especially, the investment in real sector is very popular among other investment avenues.

1.15.3. Investment instruments with high risk give more gains but it involves risk

Result: This hypothesis is accepted, lots of profits are being taken from high risk investment avenues but it has to accept risk.

1.15.4. The young investors give more preference to investment instruments with high risk compare to senior citizens; who prefer secure investments.

Result: This hypothesis is accepted, it is observed that young generation (Age group 30 to 45) give more preference to investment instruments with high risk compare to senior citizen.

1.16 Concept and Definitions:

1.16.1 GDS:

Estimates of saving have been prepared by the Central Statistical Organisation (CSO). The CSO defines saving as “the excess of current income over current expenditure and is the balancing item on the income and outlay accounts of producing enterprises, and households, government administration and other final consumers.” For the purpose of estimating the domestic saving, the economy has been divided into three broad institutional sectors: 1) household, 2) private corporate and 3) public. Saving of the household is measured as the total of financial saving. The financial saving involves possession of currency, net deposits, investment in shares and
debentures, net claims on government in the form of central and state government securities and small savings, life insurance and provident funds.8

1.16.2 Behavioural Finance:
According to Sewell (2001), “Behavioural finance is the study of the influence of psychology on the behavior of financial practitioners and the subsequent effect on markets.”9

1.16.3 Financial Literacy:
Financial Literacy is a comprehensive concept in which studied the financial awareness, financial knowledge, skills, attitude and behavioral approach about investment.10

1.17 Research Methodology:
The researcher used both primary & secondary methods for data collection. The researcher examined the behavioural aspects of investors on financial investment preferences in Nanded city. This is a quantitative research in which statistical methods have been employed for analyzing the data. As a sample area, Nanded city has been chosen by researcher for analyzing the behavior of people who invest in different types of investment instruments.

1.17.1 Data Collection:
A structured questionnaire was used as a tool for collecting data for the study. Before collecting the data, the questionnaire was first checked with few respondents as a pilot survey. Thereafter, questionnaire was modified, some questions were omitted and a few questions were added.

1.17.2 Sampling Plan:
The researcher has employed stratified random sampling method for the study. The salaried and self-employed investors were selected as sample unit for the study. The sizes of the sample recorded from salaried were of 600 and from self-employed 1,521 investors. The samples were taken from the list of members of associations of concerned groups. For fulfilling the objectives of the study, respondents were chosen on the basis of their age and annual income. The investors respondent must be above 30 years of age and must have income above Rs. 6,00,000/- per annum. Out of the
total 600 salaried investors (140) were selected as sample, of which 30 (out of 155) were taken from employees of Zilla Parishad, 30 (out of 200) were taken from Collector Office, 30 (out of 120) were taken from Municipal Corporation and 50 professors (out of 125) were taken from various colleges. Similarly 238 self-employed investors were selected as sample from the city in which 55 out of 353 doctors, 50 out of 208 engineers, 62 out of 425 from lawyers and 71 out of 535 individuals from commercial activities. In short, 140 investors from salaried and 238 from self-employed investors were selected as sample. Total 378 investors are considered in this research.

1.17.3 Framework of Analysis:

The primary data have been properly sorted, classified, edited, tabulated in a proper format and analysed by statistical tools. The Statistical Package for Social Sciences (SPSS) is used for analysis. The researcher used the following statistical tools for analyzing data.

1) Chi-square Analysis

Chi-square test was applied for the hypothesis testing by using the following formula:

\[ \chi^2 = \sum \frac{(O - E)^2}{E} \]

\( \text{Chi-square} = \sum \frac{(O - E)^2}{E} \) with \((r-1) \times (c-1)\) degree of freedom

Whereas,

- \( O \) – Observed frequency
- \( E \) - Expected frequency

\[ E = \frac{\text{Row Total} \times \text{Column Total}}{\text{Grand Total}} \]

\( c = \) Number of columns in a contingency table
\( r = \) Number of rows in a contingency table

2) Dickey-Fuller Unit Root Test

Dickey and Fuller (1979 and 1981) have proposed a test statistic that is different from the conventional “t” test statistic for testing the presence of unit root in univariate
series. Dickey and Fuller have shown that under the null hypothesis $H_0 : \delta = 0$, the estimated value of the coefficient of $Y_{t-1}$ in equation 1 follows the t statistic. Later on the t statistic or test has come to be known as Dickey-Fuller (DF) test statistic.

Dickey-Fuller (DF) test is estimated in three different forms:

1. Without Constant and Trend: $\Delta Y_t = \delta Y_{t-1} + u_t$
2. With Constant: $\Delta Y_t = \alpha + \delta Y_{t-1} + u_t$
3. With Constant and Trend: $\Delta Y_t = \alpha + \beta T + \delta Y_{t-1} + u_t$

Where (t) is trend variable. Equation 1 is a pure random walk model. The inclusion of intercept in equation 2 allows for testing unit root along with the presence of drift. The inclusion of intercept and time trend in the equation 3 gives the possibility of testing unit root along with deterministic trend and drift.

Decision rule: The critical values of the t test to test the hypothesis that is different for each of the preceding three forms of DF test.

The Hypothesis is: In all the above three models, the null hypothesis are that $\delta = 0$ that is there is a unit roots the time series is non-stationary. The alternative hypothesis is that $\delta$ is less than zero that is time series is stationary.\(^1\)

1.18 Reference Period:

The primary data of Investor’s preference to financial investment avenues were collected for a period from 1\(^{st}\) January 2012 to 31\(^{st}\) December 2012. As a secondary data, the changes of financial assets in India were taken for last 12 years from 2000-2012.

1.19 Locale of Research:

The present research highlights on the behavioural approach of investors on financial investment in Nanded city. This research area was chosen considering following points.

1) City comes under the urban area where all groups of investors may be investing in various investment avenues.
2) Nanded city is the 2\(^{nd}\) largest city after Aurangabad in Marathwada region.
3) Almost 25 capital market institutions are found in Nanded city.
4) Nobody has done the research on investor’s behaviour in Nanded city.
5) The research area was nearest to researcher due to which it could be possible to supervise on data collection and have discussion with respondents.

1.20 : Limitations of the Study

1) There are many investment avenues in the market which are difficult to analyses all in the study. Instead of that, some particular investment avenues are selected for this study.

2) Data was collected by primary and secondary sources. While collecting primary data, respondents may be avoid giving answer to sensitive questions.

3) By virtue of time and expenses, Nanded city has been selected for this study.

4) The important factor of this limitation is to be financial illiteracy among salaried and self-employed investors.

5) Those who are able to invest in various types of investment avenues will be taken as sample respondent.
1.21: Chapter Plan

I) CHAPTER I:

This chapter includes an importance of the study, scope of the study statement of the problem, objectives, hypothesis, definitions and terms, research methodology, framework of analysis, reference period, locale of research, limitations of the study.

II) CHAPTER II:

In this chapter, two sub points are mentioned that are theoretical concept and conceptual framework. Theoretical concepts deal with Tobin’s approach which is applicable to this study and conceptual framework is noted Indian and foreign author’s view related to this study.

III) CHAPTER III:

This chapter is focused on various investment avenues available in India.

IV) CHAPTER IV:

In this chapter, theoretical explanation is mentioned on investment decision making and sources of information.

V) CHAPTER V:

This chapter is related to primary data analysis. It includes the preference to low risk investment avenues, high risk investment avenues, moderate risk investment avenues and traditional risk investment avenues.

VI) CHAPTER VI:

This chapter deals with age and income wise preference, saving and investment objective of salaried investors and self-employed investors examined and analysed.

VII) CHAPTER : VII : Findings, theoretical linkage, suggestions, conclusion and Future scope of this research.
1.22: References

1) Central Statistical Organisation, CSO, India


3) Central Statistical Organisation, CSO, India

4) Central Statistical Organisation, CSO, India


