CHAPTER-I

INTRODUCTION

1.1 Introduction

India is a developing country where, there is a consistent increase in the national saving rate after the independence, though with considerable fluctuations from year to year. In international standpoint of view, India has a high saving rate compared to other developing countries, except those in East Asia. Saving and investing keeps a country dynamic in nature and able to dispense it to the economic development of people and the society in general. According to Benjamin Higgins (1950) the objective of planning in India is to stimulate the process of economic development. To fulfill this objective planning requires a large resource which in turn necessitates the mobilization of income, savings and investment. Any annual review of our economic performance highlights the importance of savings and the investment of the economy.

Adam Smith (1957) in his inquiry into the nature and causes of the wealth of nations has emphasized that, saving is a necessary condition for economic development. True, division of labour represented the economic growth, but before the division of labour can occur or proceeds, the capital accumulation is necessary. In this word, the proportion between capital and revenue seems to regulate everywhere the proportion between industry and idleness. Every increase or diminution of capital, therefore, naturally tends to increase or diminish the real quantity of industry, the number of productive hands and consequently, the exchangeable value of annual production of the land and labour of the country, the real wealth and revenue of all the inhabitants.

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As early as, Keynes (1922)\(^3\) has hinted that the bourgeois saving habits, their social function and their persistence actually made things worse, than their need. It is useful and painful at same the time to think of the accumulated wealth of the world which is built up out of the voluntary abstinence of individuals from their immediate enjoyment of consumption which we call thrift. But it should be obvious that assistance is not enough by itself to build cities or drain fens.

1.2 Theoretical Concept
1.2.1 Definitions of Investment

According to Donald “An investment is a commitment of funds made in the expectation of some positive rate of returns”.

1.2.2 Investors

An investor is a person who allocates capital with the expectation of a financial return.

1.2.3 Household Investors

Household investors’ investment plays a pivotal part in the overall investment made in a country. Mostly Investments are done in household LIC, UTI, Shares, Debenture, Post office, Bank deposits, Public provident fund, Gold, and Real estate.

1.2.4 Preference

Preference likes one thing or one person better than others.

1.2.5 Savings

According to Rose et al. (1995)\(^4\) ‘Savings’ refers to the postponement of current consumption. It is the act of abstaining from using of the current income for the purpose of acquiring goods and services. According to John Black (1997)\(^5\)

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it is the excess of income over consumption expenditure. According to Jack Harvey (1993) it is simply that a part of income which is not spent.

According to David Palfreman and Philip Ford (1984) savings may be hoarded or put to work generating more income via the savings. If a lot of hoarding takes place it can have a detrimental effect on the economy. According to Veena Narain (1998) savings would be positive if income exceeds expenditure or negative if expenditure exceeds income.

According to Krishan Dewett and Adarsh Chand (1998) savings is not only to be generated but also to be mobilized to the maximum extent possible in to productive investment in order to promote the economic development.

According to Seth (1990) the larger savings the higher will be the quantum of investment and the rate of economic growth. Adam Smith has looked upon savings as the secret of the economic growth. Conversion of savings into productive investments is the main factor responsible for the economic development.

Dipendra Sinha (1996) in his research has revealed that India always had a relatively high rate of savings compared to many other developing countries, although the rate of savings is lower than many other faster developing Asian countries. Gross domestic savings has a percentage of Gross Domestic product rate from 10.41 percent in 1950 to 23.61 percent in 1990. Thereafter, savings rate have fallen drastically.

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1.2.6. Investment

Natarajan (2005)\(^{12}\) quotes that, “the investment involves purchase of assets which are expected to yield a certain stream of income. In other words, there is an expectation that certain price which has prevailed will not change in the future. Purchase of assets like shares and securities as investments aims at stable return over a period of time”.

Avadhani (1996)\(^{13}\) highlights that, “investment refers to acquisition of some assets. It also means the conversion of money into claims on money and use of funds for productive and income earning assets. In essence, it means the use of funds for productive purposes, for securing some objectives like income, appreciation of capital or capital gains, or for further production of goods and services with the objectives of securing profits”.

1.3 Statement of Problem

The small and household investors constitute a vital segment of the economic development of India. The greater understanding of the attitude, preferences, and behavior of these investors is very vital in the policy formulation and development. The research was an attempt to study the saving and investment preferences of the investors in Vellore District. It also aims to study the needs, concerns, and problems of the small investors in the given socio economic backdrop. The present research work also provides a foundation of facts relating investors’ behavior towards various investment avenues.

Most of the investors generally have limited information about the investment avenues. Sometimes the information available from newspapers, television, internet and media may not be sufficient for investment decision making.


Hence, the researcher wanted to answer for the following research questions:

1. What are the saving habits of the household respondents?
2. What is the level of awareness of investors on the investment opportunities?
3. What is the predominant investment preference of investors?
4. What are the motivating factors of the investors for investment?
5. What is the attitude of the respondent towards savings and investment?
6. What are the factors which influence the investors to make investment decisions?
7. Do the attitude, factors, awareness on saving and investments differ by demographic characteristics?

1.4 Scope of the Study

The findings of the present study would give a bird eye view on the existence of structure of savings, awareness of investment avenues, investment patterns, during the reference period, estimates of the distribution of income, the pattern of savings and investment of the marginal propensity to save etc., This would help the planners to frame suitable policies to reduce income inequality, to overcome the plight of hardships of rural and urban household sectors in the study area. This study will be an eye opener for the investment avenues to draw necessary changes to benefit the different segment of investors.

1.5 Objectives

The broad objective of the study is to understand the savings, investment pattern and attitude of the household investors in Vellore District. However, the specific objectives of the study are:

1. To assess the saving habits of the household respondents.
2. To review the awareness of investment opportunities of the respondents.
3. To find out the predominant investment preferences of investors.
4. To evaluate the motivating factors of the investors for investment.
5. To examine the respondents investment attitude towards savings.
6. To study the factors which influence the investors to make investment decisions.
1.6 Hypotheses

In this line with the objectives of the study, following hypotheses have been formulated and tested.

1. The awareness of investment avenue awareness does not significantly differ by the demographic factors.

2. The attitude of household investors towards investment opportunities does not significantly differ by the demographic factors.

3. Saving habits of the household investors does not significantly differ by the demographic factors.

4. Motivating factors of the household investors do not significantly differ by the demographic factors.

5. There is no positive correlation between investment attitude and knowledge of investment avenues.

1.7. Operational Definitions

1.7.1 Saving

It refers to the act of investors in abstaining from using present income for the purpose of investment for future return.

1.7.2 Investment

It refers to the acquisition of any asset, securities specified in this research as Post office/ Bank Deposits, Government Securities, LIC, Provident Funds, Bonds and Savings Certificates, Shares, Mutual funds, Gold and Real Estate for the purpose of stable return over a period of time.

1.7.3 Preference

It refers to the decision made based on the attitude and knowledge for the acquisition of any asset, by the investors.

1.7.4 Household Investors

It refers to the members of a family who make investment in Post office/ Bank Deposits, Government Securities, LIC, Provident Funds, Bonds and Savings Certificates, Shares, Mutual funds, Gold and Real Estate for the purpose of stable return over a period of time.
1.7.5 **Household Investment Decisions:** It refers to the process of selecting investment avenues from a variety of options, which would be the outcome of the influence of family members, peer and media.

1.8 **Period of the Study**

The study covers a period of three years, that is, Jan.2011 to Dec.2014. The data collected, opinions and expectations revealed pertain to the same period.

1.9 **Area of the Study**

Vellore district is one of the 32 districts in the Tamil Nadu state of India. Vellore city is the headquarters of this district. It has a population of 39, 36,331 as on 2011 census. There are 9, 29,281 households. The District is bound on the Northeast by Thiruvallur District, on the Southeast by Kanchipuram District and on the Northwest, and North by Andhra Pradesh state.

1.10 **Pilot Study**

To pre-test the questionnaire and interview schedule, a pilot study was conducted in the month of Jan.2013, on a sample of 60 respondents selected from the rural and urban area. On the basis of the results, certain ambiguous terms were eliminated and the language used in the questionnaire and interview schedule was simplified. And thus, the questionnaire and interview schedule was retained and used for the survey.

1.11 **Methodology**

The study was done using descriptive design; primary and secondary data were used, to derive findings and conclusions. The primary data is collected through a structured questionnaire and interview schedule. The questionnaire and interview schedule is designed keeping in view the objectives of present research work and it is pre tested by means of a pilot study. The relevant secondary data is gathered from the reports, books, journals, periodicals, dailies, magazines and websites. The data and the information collected with the help of the questionnaire and interview schedule was processed and analyzed.
1.12 Research Design

This study was done using descriptive design, which describes the findings by the objectives, such as saving habits, awareness of investment opportunities, predominant factors for investment preferences, motivating factors of the investors for investment, investment attitude towards savings and factors influencing the investors to make investment decisions.

1.13 Sampling Design

As the universe of the study is the entire region of Vellore district, an attempt is made to stratify the district into strata. The stratification is done on the basis of geographical and administrative factors. The Vellore District constitutes 9 taluks, divided into 20 revenue divisions. In order to collect primary data for the purpose of the study, multi-stage sampling technique was adopted. At the first stage, all 9 taluks were selected. In the second stage, all revenue divisions of each taluk were chosen for the study. In the final stage, from each of the revenue division, a modest sample of 50 household investors/ respondents was selected on the purposive basis for the study. While selecting sample, considerations such as rural-urban background, economic status, professional background and educational qualification of the respondents were taken into account. On this basis, the total respondents of the study should have been 1000, but some of the respondents were eliminated from the study due to lack of response. Actual sample size is presented in the following table.

Table 1.1

<table>
<thead>
<tr>
<th>S.No</th>
<th>Revenue Division</th>
<th>Number of Respondents</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Vellore</td>
<td>43</td>
<td>5.4</td>
</tr>
<tr>
<td>2</td>
<td>Kaniyambadi</td>
<td>35</td>
<td>4.4</td>
</tr>
<tr>
<td>3</td>
<td>Anaicut</td>
<td>29</td>
<td>3.6</td>
</tr>
<tr>
<td>4</td>
<td>Madhanur</td>
<td>45</td>
<td>5.7</td>
</tr>
<tr>
<td>5</td>
<td>Katpadi</td>
<td>41</td>
<td>5.2</td>
</tr>
<tr>
<td>6</td>
<td>K.V Kuppam</td>
<td>33</td>
<td>4.2</td>
</tr>
<tr>
<td>7</td>
<td>Gudiyatham</td>
<td>46</td>
<td>5.8</td>
</tr>
<tr>
<td>8</td>
<td>Pernambet</td>
<td>29</td>
<td>3.7</td>
</tr>
<tr>
<td>9</td>
<td>Walajah</td>
<td>43</td>
<td>5.4</td>
</tr>
<tr>
<td>S.No</td>
<td>Revenue Division</td>
<td>Number of Respondents</td>
<td>Percent</td>
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<tr>
<td>------</td>
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</tr>
<tr>
<td>10</td>
<td>Sholinghur</td>
<td>45</td>
<td>5.7</td>
</tr>
<tr>
<td>11</td>
<td>Arakonam</td>
<td>34</td>
<td>4.3</td>
</tr>
<tr>
<td>12</td>
<td>Nemili</td>
<td>38</td>
<td>4.8</td>
</tr>
<tr>
<td>13</td>
<td>Kaveripakkam</td>
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<td>4.5</td>
</tr>
<tr>
<td>14</td>
<td>Arcot</td>
<td>39</td>
<td>4.9</td>
</tr>
<tr>
<td>15</td>
<td>Thimiri</td>
<td>42</td>
<td>5.3</td>
</tr>
<tr>
<td>16</td>
<td>Tirupattur</td>
<td>46</td>
<td>5.8</td>
</tr>
<tr>
<td>17</td>
<td>Jolarpet</td>
<td>38</td>
<td>4.8</td>
</tr>
<tr>
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<td>Kandhili</td>
<td>45</td>
<td>5.7</td>
</tr>
<tr>
<td>19</td>
<td>Natrampalli</td>
<td>40</td>
<td>5.0</td>
</tr>
<tr>
<td>20</td>
<td>Alangayam</td>
<td>46</td>
<td>5.8</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>793</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Field Survey

1.14 Profile of the Study Area

The present study of “Vellore District” is bifurcated from the North Arcot district of Tamil Nadu during the year of 1989. Vellore district, one of the backward regions of the state of Tamil Nadu, enjoyed enormous prosperity both in agriculture, trade and commerce just four centuries ago.

Vellore district assumes a great significance and relevance, as we unfold the glorious past. It was under the sway of various dynasties and rulers, the prominent among them being the Pallavas Cholas of Uraiyr, the Rashtrakutaa dynasty of Vijayanagarm, Mamathas, the Nawabs of the Carnatic and the British. In the 18th century Vellore District was the site of some of the decisive battles fought in Ambur in 1749 A.D, Arcot in 1751 A.D and Vandavasi in 1760 A.D as a result of the long drawn struggle between the English and the French for supremacy.

Vellore district has always been on the fore front in the struggle for freedom. In fact the sepoy mutiny of 1806 A.D. that broke out inside the Vellore fort against the Bristish authority is considered to be the prelude to the great revolt of 1857 which is often described by some historians as the first war of Independence.
Topographically, Vellore district is composed of 9 taluks i.e. Vellore, Gudiyatham, Katpadi, Wallajah, Arakkonam, Arcot, Vaniyambadi, Ambur and Tirupattur, with 4.67 percent of geographical area of total 1,30,058 lakhs square kilometer, 6.30 percent of population of 62,405,679 crores and 648 persons per square kilometer, density of population out of 62,405,679 according to the census of the year 2011 in Tamil Nadu state. Out of 39, 36,331 crores population in Vellore, 56.76 percent are living in rural areas and the remaining 43.24 percent are living urban towns i.e. 9,29,281 households. According to the census 2011, the population in Vellore district is 39,36,331 crores. The total number of workers are 16,89,339 out of which 9.06 percent are cultivators, 15.09 percent are agricultural labourers, 6.32 percent have household industries, 50.02 percent are other workers and 19.48 percent are marginal workers. The literacy rate is 70.47 percent. Thus, the region is considered as a microcosm of Tamil Nadu.

1.14.1 Administrative Divisions

The district is divided into three development divisions’ viz. Vellore development division, Tirupattur, and Ranipet development division for maintenance.

1.14.2 Financial Institutions

The district possessed commercial bank branches, and District Central Co-operative Banks, Tamil Nadu State Agricultural and Rural Development Banks, Urban Co-operative Banks and Tamil Nadu Industrial Investment Corporation. The Vellore Central Co-operative Bank is the most important financial agency extending credit facilities to the agriculturalists through its 343 primary co-operative societies. In many cases, short term loans are converted into medium and long term loans for various reasons including drought, to help the farmers, repay loans in convenience. The urban Co-operative banks of the district are under the control of the Joint Registrar of Co-operative Societies, Vellore. It has 13 branches in the taluk head quarters and extends jewel loan facilities to the agriculturalists. The Vellore district branch of the Tamil Nadu Co-operative Sate Agricultural and Rural Development Bank meets the long term credit requirements.
of the agriculturalists through 17 Primary Agricultural and Rural Development Banks in the district.

1.15 Tools for Data Collection

The primary sources of data were collected from 793 investors using questionnaire and interview schedule. Questionnaires were used for the respondents who could read and understand the tool. Interview schedules were used for the respondents who could not read and understand the tool. The tool was in English Language. It was classified by objectives of this study. Open ended, closed ended and multiple choice questions were included for collection of the data. Four point scale was used to measure the attitude of the investors on the investments.

1.15.1 Tools of Analysis

The data collected were analyzed by preparing suitable tables. The information collected with the help of questionnaire and interview schedule were tabulated and analyzed by using various statistical measures like Percentage analysis, Mean and Standard deviation analysis, Chi-square test, Analysis of Variance (ANOVA) t-test analysis and Correlations.

1.15.2 Chi-Square Test

It is a test that checks the level of significance in the association between two variables. But it does not show its positivity or negativity. The p-value would indicate whether there is any association between the dependent variable and the independent variable. This test was applied to find out the association between saving objectives and best investment options and demographic details.

1.15.3 ‘t’ – Test

It is used for judging in any significant difference between the means of two samples. The t- test will indicate whether the perceived differences among the two groups are significantly different. In this study t-test has been used to find out the differences of attitude, awareness, and the motivating factors for investment and saving habits by the demographic details such as gender and marital status.
1.15.4 ANOVA

It is an important technique in the context of all those situations where one wants to examine the significant Mean differences between more than two groups. The results of the ANOVA will show whether or not the means of various groups are significantly different one from the other as indicated by F-Statistic. In this study ANOVA has been used to find out the differences of attitude, awareness, motivating factors for investment and saving habits by the demographic details such as age, income, occupation, family size and education.

1.15.5 Correlation

It is a higher level of test that consolidates the data to derive its positive or negative associations among two or more variables. The level of significance ‘P’ and ‘r’ value would indicate the strength of the association. In this research it has been used to find out the correlation between the investment attitude and the investment knowledge of the respondents of the study.

1.16 Limitations of the Study

A gross section of the study like the present one has some limitations, which should be noted. The relevance of the income variable is an important limitation. Income for a given year is not the only relevant determinant of saving. Saving is generally geared to an average or normal long run income and to that extent the saving function obtained may not be a prone one. This would be especially true regarding the income of the respondent, which fluctuates due to a variety of reasons.

This study has not included all the avenues for investment and is confined only to the nine investment avenues which has been discussed and the findings may not be generalized to other avenues of investment.

This study forms only the investment preference of household investors and not about the different investment products in different investment avenues and the risk factors.
The study of the individuals at different income level and their propensities of savings obtained may not be immediately applicable to very short run periods where the adjustment to new income levels may still be in progress.

It should be noted that, the present study contains to 20 revenue divisions in one district of Tamil Nadu and while the size of holding distribution in rural and urban, it may be representative distribution of income as an important variable in any savings and investment study.

The information for the study is obtained from the respondents out of their memory because they do not maintain any proper accounts; hence, there is a recall bias. Collection of certain details pertaining to income and saving is a sensitive task. Keeping these limitations in mind, the researcher has proceeded with his work in the study area.

1.17 Chapter Arrangement

The present study relating to the household investors behavior in Vellore District is presented in six chapters.

Chapter I: Introduces the subject maters and study period and profile of the study area, objectives, methodology, hypotheses, importance and limitations of the study.

Chapter II: Savings and Investment Factors – Literature Review.

Chapter III: An Overview of Investment Avenues and Analysis of Domestic Savings in India.

Chapter IV: Analysis and interpretations

Chapter V: Findings and Suggestion

Chapter VI: Summary and Conclusion