Chapter 1
Introduction

In the today’s world all the individuals are occupied in various financial activities depending on the accessibility of money and possibility of return from the activities to generate income to meet the basic requirements then if there is any amount is left than unused amount is considered as the saving which can be utilized for the future necessities. If the savings of the households are kept at the home or in safety lockers then there will not be any returns because both the places don’t generate return and money would be idle. If it is invested in to market by choosing any medium, sufficient income may be generated from the reserves. Hence households try to invest their saving into different investment avenues which are easily available into the financial market so that maximum utilization of resources can be done by choosing the right option to get maximum returns.

The primary motivation of investment for a household is to modify his consumption pattern in order to achieve higher levels of consumption in future. The necessary quality of an investment is that it involves time for the return. The assurance of resources are saved or put away from current utilization with the expectation that some benefits will accumulate in future. The reserves depend on “Time value of money” which explains that “A rupee today is worth more than tomorrow”. In past days money was not invested, as avenues for investments were not accessible and the only way left with, was dumping this money in secret places to save it from theft and for future usage. As such, households were not getting any return on that. In the present time, various avenues of investments are available for investors. At present, apart from deposits in bank and trading in stock market, other modes of investments are also available, such as NSC’s, PPF’s, Chit Funds, Mutual Funds, Insurance, and Investments in commodities like gold silver, jewellery and Real Estate. The approach of households towards investment varies with their age, gender, marital status, educational level, occupation, income, dependency ratio and so on.

There are so many households who think that investments is very striking because they can participate in the decision making process and withdraw their money if they see that loss may be arise. It cannot be predicted that investments will be always worthwhile, as investor selection of different investment avenues is not always make the correct there could be risk of loss always associated with the investment. However households can earn the maximum
return on their investment by diversification of their money into different avenues of investment. Investment is high risk opportunities which have a major impact on investor’s future. Mostly every individual or households make the investment because of any reason, it may be future prospective or higher education of children, may be for own house. Sometimes investors are confused for while selecting the correct investment avenues even though they made the investment sometimes for pension plan, and employee saving program or through purchase of life insurance or by some other mode of investment like investing in Real Estate (Property) or in debts or in saving schemes of post offices. Each of this investment has some common features like future return, security of money. Lopes (1987) said that “The future is uncertain, and you must determine how much risk you are willing to bear since higher return is associated with accepting more risk” the households should start by specifying investment goals. Once these goals are established, the households should be careful with the way of investing and the environment in which investment decisions are made. These include the steps by which securities are issued and consequently bought and sold, the policy and tax laws that have been enacted by various levels of government, and the sources of information concerning investment that are available to the households.

In today’s time investment is even more dynamic than it was only a decade ago. Now people are more aware about the risk and return associated with their investment. To make your decision successful while doing the investment is to make diversification of the investment, choose some avenues for short period and some for long time maturity. Nevertheless, these investments are not totally safe from risks, so one should try to understand what kind of risks are related to them before taking action. The lack of understanding as how stocks work makes the intolerant point of view of investing in the stock market (buying when the tendency to increase or selling when it tends to decrease) effect. To get more insight into the features of each avenues of investment you must have enough financial information. Saving have a very important position in economic growth as it involves mobilization of capital, which is as a result invested with an aim to speed up the growth process. So the knowledge of savings behavior is therefore critical in planning the strategy procedures. As a result, the study has investigated the determinants of household savings behavior.

The significance of savings as a means to provide household monetary security has been widely recognized by researchers and practitioners (Rha, Montalto, & Hanna, 2006). Protective savings provide a tragedy cushion for households in case of impulsive income loss.
It is also likely that households put limitation for their current consumption to save for purchasing a house, or for their children’s education.

Saving plays a very significant societal role as a source of futures sustainability and development.

An understanding of the relationship between saving and investment provides an important insight into the process of economic expansion. This is because economic growth critically depends on capital accumulation and capital accumulation stems from investment which depends on domestic and foreign capital. Hence, increased saving leads to higher financial growth through capital formation. The relationship between saving and investment has been the subject of extreme research over the past two decades. In a seminal study, Feldstein and Horioka (1980) examine the extent of correlation between saving and investment across 16 organizations for economic cooperation and development (OECD) countries. They argue that there should be no relationship between a country’s domestic saving and its domestic investment in the presence of perfect capital mobility. Extra saving in any country will be channeled to the world capital market to fund other countries with constructive investment climate.

The importance of savings and the heterogeneity of saving behaviors have attracted the attention of researchers. Several saving theories have been proposed to explain household saving behavior, such as the permanent income hypothesis (Friedman, 1957), the life-cycle hypothesis (Modigliani and Brumberg, 1954), and the relative income hypothesis (Duesenberry, 1967). In addition, experiential studies have been conducted to examine determinants of household saving behavior. Socio-economic characteristics have been found to affect household savings; such as age, family composition, education, income and wealth. Some researchers also emphasized the significance of psychosomatic factors on household savings. Based on Ajzen’s (1991) theory of planned behavior, Warneryd (1999) presented a model of saving behavior, indicating that saving motives affect saving behaviors. Compared with households without saving motives, those with saving motives would be more likely to conduct the related saving behavior. For example, Huston and Chang (1997) found that households with an disaster saving motive were more likely to hold sufficient emergency funds.
Given the large number of studies that have been conducted to understand household saving behavior, research about saving motives that motivate household decisions is relatively limited, even though the significance of studying saving motives has been recognized (Warneryd, 1999). A few studies examined the hierarchical structure of saving motives (e.g. Canova, Rattazzi, & Webley, 2005). Xiao and Noring (1994) investigated factors that determined household saving motives. Xiao and Fan (2002) compared the saving motives of Chinese and American urban workers, but their Chinese data was from Guangzhou, an introverted city in China.

To better understand the difference in their saving rates and the differences in their saving behaviors this study also examines determinants of household saving motives, which will throw light on factors of household saving behavior. Earning pattern of households is very different. Some households are salaried, wage earners, some are professionals. They have different way of earnings. Due to different earning pattern households have different ways of investments.

1.1 Types of Savings

S Nayak (2013) has discussed the different types of saving he has categorized the types of saving on the savings allotment into the different sectors. Saving can be categorized under three categories, (a) household sector saving, (b) private sector saving and (c) public sector saving. The categories of savings are discussed below:

1.1.1 Household Sector Saving

The households saving is that saving which is acquired by households? It have a great impact on the national economy. this savings includes the assets of households may be physical of financial assets. If households are keeping the savings into the banks account then it is into the circulation of money and not blocked money. Our Prime minister has taken a initiative by opening the banks account for everyone, which has pull the money from the Indian households weather they are saving or not.
1.1.2 Private Sector saving

Private companies are creating their own savings. Households are putting their money in the private investment plans. This kind of saving is known as private savings. This includes non-government financial institution, insurance sector which are owned by private companies and any other private companies which doing the financial transactions of borrowing and lending of money to the public.

1.1.3 Public Sector Saving

All type of government schemes which are offered by the government owned companies known as public sector savings. These are savings in government banks, insurance by government companies (LIC). Households find this savings very safe and secure due to government assistance.

1.2 Nature of Saving

Savings is considered to be the cash holdings and physical assets like land, plot, house, vehicle and jewellery which will generate some future securities and returns. Government are encouraging saving more to the households who belongs to towns and having less income. Slowly but surely, the usual way of saving has been disappear. Now a day’s saving pattern of households are changing. There are so many investment options are available into the market which are offering good returns also

Recently Micro Finance Institutions (MFIs) and micro-enterprises have taken good initiatives for the development of households who are not much into the savings. Everyone wants to grow and want to earn more return by their investments. Saving is usually depends on the earnings of households. it also depends on the level of income, expenses pattern of households and age, gender, marital status, education and dependency ratio of the households. These factors affect the savings positively or negatively.
1.3 Determinants of Savings

The household’s decisions of saving are influenced by the present income levels. So many factors are responsible for the determination of the saving of national economy.

1.3.1 Real per Capita Income

Real Per capita income is the crucial determinant for saving of household. This is the main determinant which is responsible for the saving of households. Increment in savings is a reason of increase in consumption. Otherwise this saving might be kept for the uncertainty which may occur in future. Solow (1956) has explained in his neoclassical growth model that if saving is high then it will be a reason for higher levels of return. Although the growth theory models explain that higher saving will provide the higher growth per capita, thus these both factors should be well planned. The Gross domestic product per capita is used for the assessment of income. Following two predictors give the clear picture of saving pattern.

1.3.2 Demographic Features

Saving is majorly determined by the demographic variables like age, gender, marital status, occupation, qualification, income, dependency ratio and population. Saving is also determined by the contribution in saving by Male earner or females earners in the family. Again the age is also having impact on saving, Ananthapadmanabha Achar (2012) explain about the different characteristics of teachers for savings and found that age, gender, marital status, and life style are the major determinants of saving in the study area.

1.3.3 Share of Agriculture to GDP

Indian economy is depends on agriculture. Most of the population is having agricultural option as there earning medium. Agriculture contributes in the national economy. A proper financial literacy is necessary to make the financial awareness among the agricultural households, so that they can utilize their income and also can make the investment as per their requirement. By this agriculture income will be into the circulation and increase the national income
1.3.4 Real Interest Rates

Financial institutions are encouraging the households to save money by saving accounting and offering the higher interest rate. This interest rate is reasonable for the saving as high interest rate is having great attraction for the investors. Every household wants to invest their money into such investment plan which provide the higher rate with the high security of the money. Households mostly search the security of money and by investing money in the Debt (FD’s, RD’s saving account) their motive is served. When interest rate is high then households would save more but if interest rate is low than households avoid the investment.

1.3.5 Social Barriers

Our society has a great influence on the saving behavior of the households. Our we are living in society having so many constraints which directly or indirectly affect the saving behavior of the households. Because of the different factors like age, gender, culture, our community, life style and income households saving behavior get influenced. These factors decide our saving behavior of any region, state or country. Income is most crucial factor of saving behavior of households but income alone cannot remove all the social barriers. Just because of changing nature offered in the reference of culture, age, gender and life style.

1.4 THE CONCEPT OF SAVING MOTIVE

According to Emmons (1989), the motive is a “disposition to be concerned with and to strive for a certain class of incentives or goals”. In studying the multifaceted nature of intrinsic motivation, Reiss (2004) defined motives as “reasons people hold for initiating and performing voluntary behavior”. Reiss (2004) further stated that motives “indicate the meaning of human behavior”, “may reveal a person’s values”, and “often affect a person’s perception, cognition, emotion, and behavior”.

Reiss (2004) introduced a theory of 16 basic desires, which has continued to be developed since 1995. At first, 15 fundamental motives were assessed and were included in a motive list by Reiss and Havercamp (1998). Later, the 16th motive, the saving motive, was added into the list. According to Reiss (2004), the saving motive was defined as the “desire to collect”. Under his definition, saving was not restricted to saving money;
It could mean “hoarding food and other materials” as well. Zhang (1986) defined saving motives as the thought or idea to save for certain goals and the internal force to save. There were two necessary conditions for the existence of a saving motive. One was an intrinsic condition: people’s desire to meet their expenditure needs by saving or borrowing due to the imbalance between expenditure and income. The other was an extrinsic condition: income must be high enough for individuals to meet daily expense needs before saving motives are generated.

Based on the above discussion, in this study, saving motives can be defined as the desire or the reason to collect money for a valued goal. Saving motives can reflect individual financial needs and influence saving behavior.

1.4.1 Categories of saving motives
Existing literature has identified various saving motives. In discussing factors affecting the propensity to consume, Keynes (1936) stated eight different saving motives which led individuals to substitute future consumption for current consumption.

1. Precautionary motives: To construct a reserve against unprintable contingencies.
2. Life cycle motives: To provide for an anticipated future relationship between the income and the needs of the individual or his family different from that which exists in the present, as, for example, in relation to old age, family education, or the maintenance of dependent
3. Substitution motives: To enjoy interest and appreciation, i.e. because a larger real consumption at a later date is preferred to a smaller immediate consumption.
4. Improvement motives: To enjoy a gradually increasing expenditure, since it gratifies a common instinct to look forward to a gradually improving standard of life rather than the contrary, even though the capacity for enjoyment may be diminishing.
5. Independence motives: To enjoy a sense of independence and the power to do things, though without a clear idea or definite intention of specific action.
6. Enterprise motives: To secure a masse de manoeuvre to carry out speculative or business projects.
7. Bequest motives: To bequeath a fortune
8. Advice motives: To satisfy pure miserliness, i.e., unreasonable but insistent inhibitions against acts of expenditure
Browning and Lusardi (1996) summarized the saving motives proposed by Keynes (1936) as the precautionary motive, the life-cycle motive, the intetemporal substitution motive, the improvement motive, the independence motive, the enterprise motive, the bequest motive, and the avarice motive. Browning and Lusardi (1996) proposed an additional motive, the down payment motive, which was defined as the desire “to accumulate deposits to buy houses, cars, and other durables”.

Katona (1975) grouped saving motives into four categories: saving for emergency; saving for retirement; saving for children and family needs; other motives, including purchasing a house, investing in a business, purchasing durable goods, or paying for vacations and other trips.

Callen and Thimann (1997) stated that saving motives can be categorized into four groups: “to provide resources for retirement and bequests”; “to finance expected large lifetime expenditures (including house purchase and education)”; “unexpected losses of income (precautionary saving)”; and “to smooth the availability of financial resources over time to maintain a more stable consumption profile”.

Horioka and Watanabe (1997) grouped saving motives into life-cycle motives, precautionary motives, and bequest motives.

1. Life-cycle motives: motives arising from “temporary imbalances between income and expenditures at various stages in one’s life cycle…”; For example, “saving for one’s leisure, marriage, and retirement expenses, one’s consumer durables and housing purchases, and one’s children’s education and marriage expenses”.
2. Precautionary motives: motives arising from “uncertainties concerning future income and/or expenditures”; Examples are “saving for income fluctuations, unemployment, illness, accidents, natural disasters, and longevity risk”.
3. Bequest motives: motives arising from “the desire to leave assets behind to one’s children and other heirs in the form of inter vivos transfers and/or bequests”.

Other studies analyzed Chinese characteristics, and proposed saving motives for Chinese households. The investigation of Zhang (1986) identified five saving motives: precautionary motives, profit motives, saving for major purchases, saving as a habit (thrift), and
unconscious saving motives. Cui (1999) proposed six saving motives for Chinese households. These motives are saving for increasing income, saving for earning interest, life-cycle motives, saving for children (including the bequest motive), precautionary motives, and saving as a habit (thrift). Xu (2000) mentioned that Chinese household saving motives included saving for income uncertainty, children’s education, housing purchases, medical expenses, and precautionary motives.

In summary, saving motives mentioned above can be categorized into five groups, which are saving as a habit, life-cycle motives, precautionary motives, bequest motives, and wealth management. Saving as a habit refers to the situation where people do not explicitly express a reason for saving but, rather they exhibit savings as a behavior. Life-cycle motives are the desire to save for expected events to smooth consumption through lifetime, including saving for retirement, education, and major purchases. Precautionary motives refer to saving for uncertainty in the future, including uncertainty concerning income, longevity, medical expenses, etc. Saving for the benefit of next generations is defined as a bequest motive. Wealth management refers to saving for the growth of money, such as investing to earn interest, dividends, or capital gains.
1.5 Consumption behaviour of households

Human life is ultimately nourished and sustained by consumption. During the last few decades, the world consumption has expanded at an unprecedented pace. The benefit of consumption has spread far and wide and today, more people are better fed and housed than ever before. Consumption clearly contributes to human development when it enlarges the capabilities and enriches the life of people without adversely affecting the well being of others. But the links are often broken and when they are, consumption patterns and trends turns inimical to human development exacerbating inequalities. In India also the existence of large disparities in consumption standards between regions and between classes of people is found. Wide economic disparities have been observed between the rich and poor especially due to the low rate of economic change among the poor section of the population who generally fail to make use of the development programmes. The inequalities that persist between people, rich and poor, men and women, rural and urban and among different ethnic groups are seldom isolate, instead they are inter-related and over-lapping.

Consumption, in economic theory, means the final use of goods and services to satisfy human wants, needs and desires. It is a process of deriving utility from goods and services. Consumption is defined as the total value of expenditures on goods and services for the current use by the household sector (Henderson and Poole, 1991). Consumption patterns provide the structure for everyday material life, and this structure creates economic distance across classes. People belonging to different classes of income have different structures of consumption. Rich people spend more for each class of items in absolute terms, but they spend low percentage of income for food and basic needs and poor people spend higher percentage of income on food and other basic needs. In short, the propensity to consume will be higher for poor and the propensity to save will be higher for rich (Glenn and Kenneth, 1987). Food being the foremost basic need gets priority in the patterns of expenditure of people, especially the poor classes. Access to food demands affordability which depends upon two factors, namely, income of the people and prices prevailing in the country. Slower growth in income than prices would undermine the purchasing power resulting in inadequate access to food and calorie consumption. Food grains, which account for about 1/4th of the calorie intake of the poor, are sensitive to market prices. The dietary changes that characterize the “nutrition transaction” include both qualitative and quantitative changes in the diet.
Income, prices, individual preferences and beliefs; cultural traditions as well as geographical, environmental, social, and economic factors all intersect in a complex manner to shape the dietary consumption pattern (WHO, 2003).

Household expenditures as they result from budget limitations at the one hand and choices based on needs, demand, preferences etc. on the other may be regarded as manifestations of economic and social inequalities as well as cultural differences and social distinctions. Studying the patterns, disparities and determinants of household expenditures and their changes across time by making use of large scale population surveys thus seem to be promising in various respects:

- At a most general level it may provide insights into general consumption behaviour as a major source of human well-being and respective choices and restrictions;
- Investigating household expenditures and consumption patterns is considered to be the key for the monitoring and explanation of inequalities and changes in material living standards and general welfare;
- Studying expenditures and consumption behaviour of private households also seems to be an important and promising strategy to extend and supplement mainstream approaches of studying inequality as a key topic of sociological and economic research.
1.6 Summary

This chapter is giving the explanation about the saving and consumption of households. Saving and investment are influenced by many factors, the aim of this chapter is to put more light on different types of saving and different factors which are responsible for the investment decision making of households. Chapter also discussed about the different motives for saving which has come out from different studies by different authors.