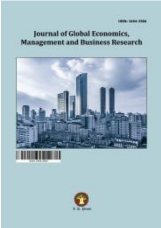

Journal of Global Economics, Management and Business Research

Volume 16, Issue 3, Page 45-53, 2024; Article no.JGEMBR.12615
ISSN: 2454-2504

Financial Planning and Investment Behavior of Salaried Households: A Comparative Study of Rural and Urban Areas

Puspa Rani [a++*] and Vishakha Sharma [a#]

[a] *Department of Economics, Baba Mast Nath University, Rohtak, India.*

Authors' contributions

This work was carried out in collaboration between both authors. Both authors read and approved the final manuscript.

Article Information

DOI: https://doi.org/10.56557/jgembr/2024/v16i39064

Open Peer Review History:
This journal follows the Advanced Open Peer Review policy. Identity of the Reviewers, Editor(s) and additional Reviewers, peer review comments, different versions of the manuscript, comments of the editors, etc are available here: https://prh.ikprress.org/review-history/12615

Original Research Article

Received: 21/10/2024
Accepted: 23/12/2024
Published: 30/12/2024

ABSTRACT

This study investigates the financial planning and investment behavior of salaried households in rural and urban areas, focusing on how socio-economic factors influence their saving and investment decisions. A sample of 100 salaried households from both rural and urban regions was selected for the study. Primary data were collected through structured questionnaires, capturing information on income levels, education, family size, risk tolerance, and investment preferences. The study applied t-test to compare the mean differences in saving and investment behavior between rural and urban households and ANOVA to examine the impact of socio-economic characteristics on financial behavior. Preliminary findings indicate significant differences in financial

---

[++] *Assistant Professor;*
[#] *Research Scholar;*
**Corresponding author: E-mail: puspasindhu@gmail.com*

Cite as: *Rani, Puspa, and Vishakha Sharma. 2024. "Financial Planning and Investment Behavior of Salaried Households: A Comparative Study of Rural and Urban Areas". Journal of Global Economics, Management and Business Research 16 (3):45-53. https://doi.org/10.56557/jgembr/2024/v16i39064.*

behavior, with urban households showing higher investment in diversified financial instruments, while rural households prefer traditional and low-risk savings options. The study emphasizes the need for financial literacy programs and improved access to financial services in rural areas to bridge the gap and promote financial inclusion across regions.

Keywords: Financial planning; investment behavior; salaried households; rural areas; urban areas.

1. INTRODUCTION

Financial planning and investment behavior play a crucial role in the economic stability and growth of households. For salaried individuals, effective financial management involves making decisions regarding savings, investments, and expenditures. These decisions are often influenced by various socio-economic factors such as income level, education, family size, and geographical location.

In both rural and urban areas, salaried households face unique challenges and opportunities that shape their financial planning and investment behavior. While urban households may have greater access to financial services and investment options, rural households often encounter limited financial literacy and fewer opportunities. This study aims to explore the differences in saving and investment behavior among salaried households in rural and urban areas, with a particular focus on how socio-economic characteristics influence their financial decisions.

1.1 Importance of Financial Planning

Financial planning is essential for individuals to manage their resources effectively, achieve financial security, and build wealth over time. For salaried households, it provides a roadmap for meeting short-term and long-term financial goals, such as purchasing a home, funding education, or preparing for retirement. Proper financial planning helps households:

1. **Maintain a Budget:** Tracking income and expenses to ensure financial stability.
2. **Save for Emergencies:** Setting aside funds to handle unforeseen expenses.
3. **Invest for Growth:** Allocating resources to various investment instruments for wealth creation.
4. **Achieve Financial Goals:** Planning for specific objectives like buying a house or funding children's education.

1.2 Factors Influencing Financial Behavior

The financial behavior of salaried households is influenced by a combination of internal and external factors. Some of the key socio-economic factors include:

1. **Income Level:** Income is one of the most critical determinants of saving and investment behavior. Higher-income households generally have a greater capacity to save and invest, while lower-income households may prioritize meeting basic needs over long-term financial planning.
2. **Education:** Financial literacy often linked to education levels, significantly impacts financial decision-making. Educated individuals are more likely to understand various financial products and investment options, enabling them to make informed choices.
3. **Family Size and Responsibilities:** Larger families or households with dependents may have higher expenses, leaving less disposable income for savings and investments. Conversely, smaller households may have more flexibility in allocating resources for financial growth.
4. **Geographical Location (Rural vs. Urban):** Rural households often face limited access to financial institutions, investment opportunities, and financial literacy programs. In contrast, urban households benefit from better access to banks, financial advisors, and diverse investment options.
5. **Cultural and Social Norms:** Cultural attitudes towards savings, investments, and risk-taking can vary between rural and urban areas, influencing how households manage their finances.
6. **Access to Financial Services:** Urban areas typically have a more developed financial infrastructure, offering various services such as banks, mutual funds, insurance, and stock markets. Rural areas

may have fewer financial institutions, which can limit investment opportunities.

1.3 Differences in Saving and Investment Behavior

The saving and investment behavior of salaried households in rural and urban areas often differ due to the varying socio-economic conditions and access to financial resources.

1. **Saving Habits:**

- **Rural Households:** Rural households often focus on traditional saving methods, such as keeping cash at home or investing in gold and livestock. These methods are considered safe but may not yield high returns.
- **Urban Households:** Urban households are more likely to use formal financial institutions for savings, such as bank savings accounts, fixed deposits, and recurring deposits. They may also explore higher-return investment options.

2. **Investment Preferences:**

- **Rural Households:** Due to limited financial literacy and access, rural households may prefer low-risk investments, such as government schemes, post office savings, or informal lending within the community.
- **Urban Households:** Urban households are more likely to diversify their investments across various financial instruments, including mutual funds, stocks, real estate, and insurance policies. They are also more open to taking calculated risks for higher returns.

3. **Risk Tolerance:**

- Rural households often exhibit lower risk tolerance, preferring secure and stable investment options.
- Urban households, with better financial literacy and access to information, may be willing to take higher risks in pursuit of greater returns.

1.4 Challenges Faced by Salaried Households

Both rural and urban salaried households face challenges in financial planning and investment.

1. **Challenges in Rural Areas:**

- Limited access to financial institutions and services.
- Low financial literacy and awareness of investment options.
- Dependence on traditional saving methods with low returns.
- Lack of financial advisors or professionals to guide investment decisions.

2. **Challenges in Urban Areas:**

- High cost of living, which reduces disposable income for savings and investments.
- Increased exposure to high-risk investment options, leading to potential financial losses.
- Balancing short-term expenses with long-term financial goals.

1.5 Strategies to Improve Financial Behavior

To enhance the financial planning and investment behavior of salaried households, several strategies can be implemented:

1. **Financial Literacy Programs:** Educating households about financial management, budgeting, and investment options can empower them to make informed decisions.
2. **Access to Financial Services:** Expanding the reach of banks, microfinance institutions, and financial advisors in rural areas can improve access to financial services.
3. **Government Initiatives:** Government schemes and policies aimed at promoting savings and investments, such as tax incentives and subsidized investment products, can encourage households to adopt formal financial practices.
4. **Digital Financial Platforms:** The use of digital platforms and mobile banking can bridge the gap between rural and urban households, providing access to financial services and investment opportunities.
5. **Customized Financial Products:** Financial institutions can develop products tailored to the needs of rural households, considering their income patterns, risk tolerance, and investment goals.

Financial planning and investment behavior are critical for the economic well-being of salaried households in both rural and urban areas. While urban households often have better access to financial resources and investment options, rural households face unique challenges that require targeted interventions. By understanding the socio-economic characteristics and financial behavior of these households, policymakers and financial institutions can design effective strategies to promote financial inclusion, enhance financial literacy, and improve the overall financial health of salaried households in both rural and urban regions.

This comparative study highlights the importance of addressing the distinct needs and challenges faced by rural and urban households to ensure equitable access to financial opportunities and foster sustainable economic growth.

2. REVIEW OF LITERATURE

Arora & Marwaha (2012): Published their work on "Investment Patterns of Individual Stock Investors: An Empirical Analysis of Punjab" in the *Asia-Pacific Journal of Management Research and Innovation* in 2012. They found that individual investors' saving needs were influenced by projected benefits, personal financial needs, taxation benefits, and security needs. It was observed that non-retired people did not plan their savings and believed their current savings would suffice for their post-retirement needs.

Gupta & Agarwal (2013): Published their study titled "A Study of the Constituents of Domestic Savings and Investments in Urban Cities with Special Focus on Mumbai and Delhi" in the *Indian Journal of Finance* in 2013. They examined 251 households in Mumbai and Delhi and identified four important constituents of domestic savings and investments: a) place of residence, b) household income, c) age group, and d) interest rates.

Seetharam& Britten (2013): Wrote a research paper on "An Analysis of Herding Behaviour during Market Cycles in South Africa," published in the *Journal of Economics and Behavioural Studies* in 2013. They noted that such behavior mirrored human behavior, with financial researchers incorporating human behavior into analyses of financial markets. They argued that behavioral finance reasonably accounted for investors' thoughts, emotions, and actions, rather than adhering strictly to the rational investor ideology. They concluded that the behavior of a rational investor served as the foundation for an efficient market.

Kamstra, Kramer & Levi (2013): Published a report on "Effects of Daylight-Saving Time Changes on Stock Market Returns and Stock Market Volatility" in *Psychological Reports*. The report explained psychological aspects of investors' behavior, highlighting socio-cultural influences such as peer stock market participation, marital status, education, and income. They noted that herd-like behavior was common, with investors often following market trends or groups without analyzing outcomes.

Kumar & Arora (2013): Published their research paper on "Investors' Perceptions about Mutual Funds in India" in the *Indian Journal of Finance*. Their study suggested that investors needed investment education and required information about investment avenues through TV, the Internet, newspapers, and professional journals to enhance their awareness levels.

Priyadhanlaxmi & Dhanlaxmi (2014): Published a paper titled "A Study of Upcoming Stakeholders' Preferences towards Various Investment Avenues in Salem District" in the *Intercontinental Journal of Financial Research Review*. They examined investor preferences for various investment options such as shares, bank deposits, gold, real estate, life insurance, postal savings, and mutual funds. They found that bank deposits were the most popular among investors. The researchers concluded that there was no significant association between income levels and investment awareness.

Mangala & Sharma (2014): published a paper titled "A Brief Mapping of Theory and Evidence of Investors' Behavioural Biases" in the *Indian Journal of Finance*. They observed that behavioral biases significantly influenced financial decision-making. These biases could stem from personal characteristics or the investment environment, leading to irrational behavior such as the disposition effect, endowment effect, and overreaction. The study concluded that investors could be influenced by multiple biases simultaneously.

Lokhande (2014): published a research paper on "A Study of Investment Awareness and Patterns of Savings and Investments by Rural Investors" in the *Indian Journal of Finance*. The study revealed that rural investors placed significant trust in products and services provided by government banks. Bank deposits were the top preference, followed by gold and jewelry, and then real estate. The findings suggested that rural investors prioritized safety and liquidity over high returns and had a conservative approach to investments.

Raut & Das (2015): published a research paper on “Behavioral Prospects of Individual Investors’ Decision-Making Process” in the *Indian Journal of Finance*. They found that individual rationality and market efficiency were not absolute. Social influences like herding, contagion, imitation, and information cascades significantly affected decision-making. Psychological factors such as representativeness, availability, and anchoring heuristics also caused deviations from rational decisions.

Vadde (2015): published a research paper on “Impact of Socio-Demographic and Economic Factors on Households’ Savings Behaviour: Empirical Evidence from Ethiopia” in the *Indian Journal of Finance*. This study examined socio-demographic and economic factors affecting savings behavior in microfinance institutions in Ethiopia. Female household heads were found to save more than males, and married households constituted a significant share of savers and non-savers. Educational levels did not significantly influence saving behavior, while households with smaller family sizes were more likely to save. Economic factors, such as self-employment and higher average monthly income, positively impacted household savings.

Objective: To study the saving and investment choices of salaried households based on their socio-economic background.

3. METHODOLOGY

In the study titled *"Financial Planning and Investment Behavior of Salaried Households: A Comparative Study of Rural and Urban Areas,"* a sample of 100 salaried households from both rural and urban regions of Haryana was selected to explore their saving and investment patterns. A mixed-method approach was employed, integrating both quantitative and qualitative data collection techniques to provide a comprehensive analysis of the financial behavior of these households.

Quantitative data were collected through structured questionnaires designed to gather information on income levels, saving habits, investment preferences, and the socio-economic factors influencing financial decisions. Frequency analysis was conducted to identify common trends in financial planning, while ANOVA and t-test analyses were applied to examine differences across demographic variables such as age, education, income, and geographic location.

To complement the quantitative data, qualitative methods, including reviews of relevant articles, journals, and reports, were utilized to gain deeper insights into the motivations and challenges faced by households in managing their finances. Additionally, focus group discussions with selected participants provided contextual understanding of their financial goals, risk tolerance, and the impact of financial literacy on their investment choices.

By integrating both statistical and thematic analyses, the study offers a holistic understanding of how socio-economic factors influence the financial planning and investment behavior of salaried households in rural and urban areas, highlighting regional disparities and opportunities for financial inclusion.

4. RESULTS AND DISCUSSION

Data analysis involves examining and interpreting collected information to uncover patterns, trends, and insights. Through statistical techniques and tools, it aids in drawing meaningful conclusions, supporting decision-making, and addressing research objectives.

The demographic profile of the 100 salaried households surveyed in the study provides insights into their distribution across age, location, and educational qualifications.

Age Distribution: The respondents are categorized into four age groups. The largest proportion of participants falls in the 18-25 age group, accounting for 33% of the total sample. This is followed by 29% in the 25-30 age group, 21% in the 30-35 age group, and 17% aged above 35. This distribution highlights a relatively young population among salaried households, particularly in rural areas.

Location: The sample is fairly balanced between urban and rural respondents, with 48% residing in urban areas and 52% in rural regions. This balance allows for a comparative analysis of financial planning and investment behavior across different geographical locations.

Table 1. Frequency Analysis of Demographic Variable

Demographic Variables		**Frequency**
	18-25	33
Age	25-30	29
	30-35	21
	Above 35	17
	Total	100
Location	Urban	48
	Rural	52
	Total	100
Educational Qualification	Graduation	49
	Post graduation	37
	Others	14
	Total	100

Source: Researcher's Compilation

Table 2. Frequency Analysis of saving and investment choices of salaried households based on their socio-economic background

Statements	**SD**	**D**	**N**	**A**	**SA**
Higher-income households are more likely to invest in diversified financial instruments such as mutual funds, stocks, and real estate compared to lower-income households.	5	2	3	18	72
Rural households predominantly rely on traditional saving methods like gold, livestock, or cash savings, whereas urban households prefer formal savings options like fixed deposits and recurring deposits.	2	2	6	31	59
Households with higher levels of education demonstrate better financial literacy and are more inclined to invest in high-return financial products compared to those with lower educational qualifications.	1	2	7	36	54
Salaried households with larger family sizes tend to allocate a higher proportion of their income to daily expenses, reducing their capacity to save and invest.	6	5	9	35	45
Urban households, due to better access to financial services and institutions, are more likely to engage in long-term investment plans compared to rural households.	3	5	2	17	73
Younger households (aged 18-30) prioritize short-term financial goals like travel or gadgets, while older households (above 35) focus on long-term goals such as retirement planning and children's education.	8	7	3	55	25
Risk-averse households, commonly found in rural areas, prefer low-risk investment options such as government schemes and savings accounts over higher-risk investments like equities.	3	3	5	32	57
The presence of dual-income earners in a household significantly increases the likelihood of higher savings and investments compared to single-income households.	3	4	5	53	35
Households with stable and secure employment, particularly in urban regions, are more likely to allocate funds towards insurance and retirement plans.	7	6	7	33	47
Socio-cultural factors and peer influence play a significant role in shaping investment choices, with urban households more likely to be influenced by financial advisors and online resources.	11	4	5	33	47

Source: Researcher's Compilation

Educational Qualification: Regarding educational qualifications, 49% of the respondents hold a graduation degree, while 37% have completed post-graduation. The remaining 14% fall under the category of "Others," which includes diploma holders and vocational training. This reflects a moderately high level of education, which can influence financial literacy and investment decisions among the respondents.

Overall, the demographic diversity in age, location, and education provides a well-rounded perspective for analyzing the financial behavior of salaried households in rural and urban areas.

The findings from the survey reveal significant insights into the saving and investment choices of salaried households, influenced by their socio-economic background. A strong correlation is observed between income levels and investment preferences, as higher-income households tend to invest in diversified financial instruments like mutual funds, stocks, and real estate, with 72% of respondents strongly agreeing with this statement. In contrast, rural households predominantly rely on traditional saving methods such as gold and cash savings, while urban households are more inclined toward formal savings like fixed deposits, a trend that is supported by 59% of participants. Educational background also plays a crucial role, with 54% agreeing that households with higher education levels are more likely to invest in high-return products. Family size is another factor influencing financial behavior; larger families often allocate a larger portion of income to daily expenses, leaving less room for savings and investments. The majority of respondents also acknowledge that urban households, due to better access to financial services, are more engaged in long-term investment planning. Additionally, risk tolerance, the presence of dual-income earners, and the influence of socio-cultural factors also significantly shape investment decisions, particularly in urban settings where financial advisors and online resources have a greater impact. Overall, the data underscores how various socio-economic factors influence the financial planning and investment behaviors of salaried households across rural and urban areas.

H0: There is no significant difference in saving and investment choices of salaried households based on their socio-economic background across different age groups.

The null hypothesis (H0) states that there is no significant difference in the saving and investment choices of salaried households based on their socio-economic background across different age groups. The results of the ANOVA test show a significant difference, as the p-value (0.000) is less than the significance level of 0.05. The F-value of 10.677 indicates that the variations in saving and investment choices across different age groups are statistically significant. Therefore, we reject the null hypothesis, concluding that age has a significant impact on the saving and investment decisions of salaried households.

H0: There is no significant difference in saving and investment choices of salaried households based on their socio-economic background across Location.

Table 3. Results of ANOVA (Age)

ANOVA: Age					
Age	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	33.619	8	1.865	10.677	.000
Within Groups	103.756	92	.176		
Total	137.375	100			

Source: Researcher's Compilation

Table 4. T-test for Equality of Means (Location)

Levene's Test for Equality of Variances	**T-test for Equality of Means: Location**						
	F	**Sig.**	**t**	**df**	**Sig. (2-tailed)**	**Mean Difference**	**Std. Error Difference**
Equal variances assumed	7.935	.000	-1.374	98	.159	-.387	.276
Equal variances not assumed			-1.639	56.000	.119	-.396	.253

Source: Researcher's Compilation

Table 5. Results of ANOVA (Educational Qualification)

ANOVA: Educational Qualification					
Education Qualification	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	184.988	9	9.683	30.195	.000
Within Groups	184.985	78	.321		
Total	369.973	100			

Source: Researcher's Compilation

The results of the t-test for equality of means show no significant difference in the saving and investment choices of salaried households based on their location (urban vs. rural). Levene's test for equality of variances indicates that the assumption of equal variances is violated ($F = 7.935$, $p < 0.001$). For equal variances assumed, the t-value is -1.374 ($p = 0.159$), and for unequal variances assumed, the t-value is -1.639 ($p = 0.119$). Since both p-values are greater than 0.05, we fail to reject the null hypothesis (H0), suggesting no significant difference in financial behavior across locations.

H0: There is no significant difference in saving and investment choices of salaried households based on their socio-economic background across Educational Qualification.

The ANOVA results for the hypothesis H0: There is no significant difference in saving and investment choices of salaried households based on their socio-economic background across Educational Qualification indicate a significant difference. The F-value of 30.195 and Sig. value of 0.000 suggest that the null hypothesis is rejected, meaning there is a statistically significant difference in the saving and investment choices among households with different educational qualifications. The Sum of Squares between Groups is 184.988, and the Mean Square is 9.683, further confirming the significant variance in financial behavior based on educational background.

5. CONCLUSION

In conclusion, the study on the financial planning and investment behavior of salaried households in rural and urban areas highlights the significant influence of socio-economic factors, particularly educational qualification, on financial decisions. The findings reveal that households with higher educational qualifications tend to exhibit better financial literacy, leading them to invest in diversified and high-return financial products. On the other hand, households with lower education levels are more likely to rely on traditional saving methods. Additionally, urban households benefit from better access to financial services, making them more inclined to engage in long-term investments like retirement planning and insurance. In contrast, rural households prefer low-risk investment options due to their more conservative financial approach. The study also found that larger family sizes and dual-income households influence saving behavior, with the latter contributing to increased savings and investment. The ANOVA results showed a statistically significant difference in saving and investment choices based on educational qualification, reinforcing the importance of education in shaping financial behaviors. Overall, the study provides valuable insights into how socio-economic background impacts the financial decision-making process of salaried households across different regions.

DISCLAIMER (ARTIFICIAL INTELLIGENCE)

Author(s) hereby declare that generative AI technologies have been used during writing or editing of this manuscript.

Details of the AI usage are given below:

1. ChatGPT-4o

COMPETING INTERESTS

Authors have declared that no competing interests exist.

REFERENCES

Arora, S., & Marwaha, K. (2012). Investment patterns of individual stock investors: An empirical analysis of Punjab. *Asia-Pacific Journal of Management Research and Innovation*, 8(3), 239-246.

Gupta, N., & Agarwal, V. (2013). A study of the constituents of domestic savings and investments in urban cities with special focus on Mumbai and Delhi. *Indian Journal of Finance*, 7(2), 17-26.

Kamstra, M. J., Kramer, L. A., & Levi, M. D. (2013). Effects of daylight-saving time changes on stock market returns and stock market volatility: Rebuttal. *Psychological Reports*, 112(1).

Kumar, R., & Arora, R. S. (2013). Investors' perceptions about mutual funds in India. *Indian Journal of Finance*, 7(1), 44-52.

Lokhande, M. A. (2015). A study of investment awareness and patterns of savings and investments by rural investors. *Indian Journal of Finance*, 9(7), 22-31.

Priyadarshini, M. (2019). Capitalist approach towards securities investment plan of IIFL: An empirical study in Salem district. *Think India Journal*, 22(14), 9320-9331.

Priyadhanlaxmi, M., &Dhanlaxmi, M. (2014). A study of upcoming stakeholders' preferences towards various investment avenues in Salem District. *Intercontinental Journal of Financial Research Review*, 2(4), 187-198.

Raut, R. K., & Das, N. (2015). Behavioral prospects of individual investor decision-making process: A review. *Indian Journal of Finance*, 9(4), 44-55.

Seetharam, Y., & Britten, J. (2013). An analysis of herding behaviour during market cycles in South Africa. *Journal of Economics and Behavioral Studies*, 5(2), 89.

Vadde, S. (2015). Impact of socio-demographic and economic factors on households' savings behaviour: Empirical evidence from Ethiopia. *Indian Journal of Finance*, 9(3), 49-57.

Peer-review history:
The peer review history for this paper can be accessed here:
https://prh.ikprress.org/review-history/12615