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AN EMPIRICAL ANALYSIS ON HOUSEHOLD SAVING AND INVESTMENT BEHAVIOR AMONG DIFFERENT INCOME GROUPS IN URBAN AREA OF THE STATE OF ODISHA

Mrs. Bijayalaxmi Bhol* Dr. I. J.Raghavendra Dr. Ansuman Sahoo*****

*Lecturer cum Research Scholar,
Department of Business Administration,
S.C.S. Autonomous College, Puri
Email id: bijayalaxmibhol84@gmail.com

**Associate Professor,
School of Management Studies,
GIET University Gunupur
Email id: drijraghavendra@gmail.com

***Lecturer,
IMBA, Department of Business Administration,
Utkal University vanivihar, Bhubaneswar
Email id: mransumansahoo@gmail.com

ABSTRACT:

This study investigates the saving and investment behavior of households across various income brackets in urban areas of Odisha, India. With rising urbanization and economic development, understanding how different income groups manage their finances is crucial for policymakers and financial institutions. Using a combination of primary survey data and secondary sources, we analyze factors influencing saving and investment decisions among households in Odisha. Our research employs both quantitative and qualitative methods to delve into the intricate dynamics of household financial management. We explore the determinants of saving behavior, such as income levels, education, family size, and cultural factors, as well as the preferred investment avenues among different income groups. Additionally, we examine the impact of socio-economic variables, such as employment status and access to financial services, on household financial decisions. The findings of this study provide valuable insights into the saving and investment patterns of urban households in Odisha. Understanding these patterns can inform policy interventions aimed at promoting financial inclusion, enhancing savings mobilization, and channeling investments towards productive sectors. Moreover, the study contributes to the existing literature on household finance in emerging economies, offering practical implications for policymakers, financial institutions, and researchers.

KEYWORDS:*Household Saving, Investment, Income*

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INTRODUCTION

The manner in which households save money and make investments is a significant factor in the formation of the economic landscape of any place. This behaviour is a reflection of the people' financial well-being and the possibilities for their future. The dynamics of saving and investment patterns across different income groups give useful insights into the general economic well-being and growth trajectory of a society. These insights may be gained by understanding the dynamics of these patterns. Within the context of the metropolitan regions of the state of Odisha, the purpose of this empirical study is to investigate the ways in which people of different income levels save money and make investments. Over the past several years, the state of Odisha, which is located on the eastern coast of India, has seen a substantial amount of economic expansion and urbanisation. With the continued growth and development of urban centres in the state, it is becoming increasingly important to have an understanding of the ways in which households belonging to a variety of economic groups participate in activities related to saving and investing. This understanding not only helps politicians in the process of creating efficient economic policies, but it also helps companies and financial institutions in the process of adapting their goods and services to match the requirements of various subsets of the population. Because of the distinctive characteristics of urban economies, which include higher income levels, more access to financial services, and enhanced exposure to investment possibilities, the decision to focus on urban regions was made on purpose. This study seeks to give a comprehensive knowledge of saving and investing behaviours in a setting that is characterised by rapid urbanisation and socio-economic development. Particular attention will be paid to urban families in order to accomplish this goal. This analysis makes use of empirical methods to investigate a variety of aspects of household saving and investment behaviour. These aspects include the factors that determine saving rates, the distribution of savings across various asset classes, investment preferences, and the influence of socio-economic factors on decisions regarding saving and investment. The purpose of this study is to identify trends and inequalities that may be present among the urban population of Odisha. This will be accomplished by disaggregating the analysis based on income groupings, which will range from families with low incomes to households with high incomes. It is anticipated that the findings of this research will provide valuable insights for policymakers, financial institutions, and other stakeholders. These insights will assist in the formulation of targeted interventions that are aimed at promoting financial inclusion, fostering investment opportunities, and improving the overall economic well-being of urban households in Odisha.

Household Saving definition

The rate at which households save money may be characterised in a number of different ways; the definition that is used has a significant influence not just on determining how trends in household savings change over time, but also on determining what variables determine the reasons that households save money. First things first, it is essential to have a clear understanding of just what it is that we are interested in determining. There are two distinct interpretations that Poterba (2002) provides with regard to the concept of household savings. First, subtracting the amount of money that a family has spent during a particular time period from the amount of money that it has saved is the first approach that may be used to determine the amount of money that a household has saved. When it comes to the second definition, household savings are defined as the changes that take place in the net worth of a household over the course of a particular time period. Additionally, any capital gain or loss that happens on existing assets during that year is included in this definition, which is identical to the definition that was previously specified. Gains and losses in capital can commonly account for more than the difference between the flow of savings and the flow of income minus expenditure over a certain time period. This is because capital gains and losses might occur during a period of time. Because it is difficult to effectively estimate gains and losses in capital, the majority of the previous research that has been undertaken on the spending habits of families has not relied on the second definition. This is because the second definition is more difficult to accurately analyse. Generally speaking, the first definition is the one that is employed in research investigations, as indicated by the outcomes of the investigation that was carried out by Rocher and Stierle (2015). Variations of this term are routinely made in order to accommodate reserves for pension funds. The purpose of these research is to investigate the ratios between the amount of our discretionary income that we choose to spend and the amount that we choose to save for a later time period, as well as the factors that influence these ratios. Due to the fact that this is the area of interest that these studies are concentrating on, the key reason for selecting the first definition is because of this.

There is a distinction between the definition that was used in this inquiry and the one that was offered by Poterba (2002). In accordance with that definition, the total amount of net household savings is increased by the amount of change in net equity in pension fund reserves. On top of the change in the equity that households have in pension funds, the amount of money that is saved by families is equal to the amount of disposable income that is not spent on final consumption. This is in addition to the amount of money that is saved by households. (1) Take a look at equation 1 When this is accomplished, the rate of household savings is calculated by dividing the total amount of net household savings by the whole amount of income that is available for discretionary spending (see equation 2).

$$Nethouseholdsaving = disposableincome - finalconsumption$$

$$+ changeinnetequityinpensionfundresurves$$

$$Saving\ rate = \frac{Net\ household\ saving}{Disposable\ income}$$

Theories

The concept of saving for retirement as a component of the lifetime income and the concept of precautionary saving as the concept of economic security are the two most prominent ideas regarding saving. Both of these ideas are considered to be the most common types of savings. Long-term economic security is distinct from the concept of present economic security, which is the other concept. Both of these concepts are intended to be understood separately. Both the notion of life-cycle income and the idea of economic security will be discussed in further detail in the paragraphs that are to follow.

Life-cycle hypothesis

Since the early 1950s, Modigliani and Brumberg have been responsible for the development of the life-cycle theory (2005). Based on this idea, it can be deduced that the lifetime income of individuals and households will be varied during the course of their lives. According to this model, the utility of an individual consumer is a function of the individual's total consumption flow across the lifespan, where consumption is smoothed out over the course of the life-cycle. A life-cycle hypothesis may be broken down into three distinct stages. Initially, individuals had a negative net saves throughout their early adulthood, which was then replaced by a positive net savings during their working years, and finally, as individuals entered retirement, they began to dissaving. This progression is seen in Figure 2 below. During these time periods, individuals and households strive to achieve the highest possible total utility. We are able to specify the utility of homes by making use of the utility function that Berg (2020) outlined in his scientific investigation.

$$U = \sum_{i=T}^{L} u(c_i)(1+\delta)^{-(i-T)} \qquad (3)$$

U stands for the total utility throughout a person's life, L for their expected lifespan, T for their current age, u(c) for the utility function, ci for consumption at age i, and δ for their preferred amount of free time. Working people want to pay off the debt they accumulated in their twenties and thirties and to live well in retirement. Carlin and Soskice (2006) investigate the Life-cycle theory and the perpetual income hypothesis together in their course literature. Instead of seeing consumption as a function of income, this hypothesis places it in the context of average expected income or lifetime income. Despite their significant differences, these two theories have a common view of the connection between saving and spending. Here we will continue to look at the life-cycle hypothesis; in the next section, which is related to the Ricardian equivalence, we will examine the perpetual income hypothesis. Individual and household consumption follows a generally predictable pattern, according to Carlin and Soskice (2006), who continue to employ the life-cycle hypothesis model. People are often less productive in their early years, when they are just starting out in the workforce since they are less experienced, younger, and full of life energy. Consequently, their incomes are lower. A young adult's income starts to go up about the time they hit their mid-thirties. This is due to the fact that their earnings are directly proportional to their level of expertise and productivity. Salaries start to fall down again when people get close to retirement age. It is postulated that the consumption pattern will remain relatively unchanged throughout the life cycle based on the premise. Throughout the life cycle, households are assumed to strive for a constant level of consumption. Borrowing money is a need for younger households since their income is low compared to their expenditure, which is larger than their income. Conversely, individuals start paying off this debt and investing for retirement as they enter the latter years of their working life.

Literature Review

Burney, N.A. and Khan, A.H. (2018) Researchers in India looked at how various demographic and socioeconomic variables affected family savings rates. They used data on household income and spending at the macro level collected from the 1984–1985 Household Integrated Economic Survey (HIES) for their research. Despite rural households' reputation for stronger savings, urban families' average income and savings were shown to be substantially higher. A household's capacity to put money aside is affected adversely by variables including the dependency ratio and different levels of education. Although there is no association between savings and the head of the household's employment or service status, there is a link between saving and age. The MPS value in rural India was 0.37 while in urban India it was 0.22.

Kazmi, A.A. (2019) A regression model that incorporated major macroeconomic factors was utilised in order to carry out an examination of the national saving rates of India and India throughout the time period ranging from 1960 to 1988. This analysis was carried out in order to determine the effectiveness of the methodology. India performed better than India on average in terms of the export ratio, real growth, interest rates, and gross assistance inflow, according to the data that was collected for India and India throughout the course of the period of time spanning from 1960 to 1988. This was determined by comparing the two countries' performance. The gap between the two is 7.9%, which is much lower than the national saving rate in India, which is equal to 10.7%. 18.8 percent of the population in India saves money annually.

Ghani, M.O. (2020) Based on the responses received, it was determined that the majority of individuals in India are not as proficient at saving money as they are in India. According to his opinion, if we were to do a comprehensive study of the economic and social behaviour of individuals in India, we may find some qualities that are adverse to the growth of a healthy saving culture in the nation. This is something that we could uncover if we were to conduct such an inquiry. We are unable to build a culture of saving across the nation, despite the fact that our institutions are committed to encouraging saving. It has been estimated by a number of national and international sources that some powerful persons in the country have smuggled between fifty billion and one hundred billion dollars to western nations, the majority of which was money gained through unlawful ways. This information has been gathered from a variety of sources. The value of the Indian rupee has been severely lowered as a result of this large outflow of currency, and the environment for investment has been entirely destroyed as a result of this.

Verma, R. and Wilson, E.J. (2014) After performing research, it was found that there is a substantial quantity of literature that discusses the relevance of domestic savings and investments in supporting economic growth over an extended period of time. This was revealed after the study was carried out. The study proved a relationship between India's investment, foreign inflows, and savings by using information relevant to both private and state savings and investments. This connection was proven through the usage of information. As can be seen from the findings presented in the introduction, there is a significant and deep connection that exists between the three primary components that are the focus of this inquiry. It has been shown that private savings and investments, which are not made by households, are susceptible to the effect of forcing factors over the course of a lengthy period of time. These factors include savings from both the government and private individuals, investments, and inflows from outside. The study also revealed that proper policies should be formed in respect to budget deficits and households, changes to the banking sector, and foreign inflows in order to stimulate economic growth. This was proved by the fact that the study demonstrated that policies should be developed.

Ahmad, M. and Asghar, T. (2014) It has been found that the substantial role that savings and investments play in the expansion of a nation cannot be exaggerated. This is something that researchers have observed. The data obtained from the Household Income and Expenditure Survey (HIES) were utilised in order to gather information on the saving practices of families living in both rural and urban areas. Consequently, this led to the conclusion that the saving behaviour in the nation that was researched is influenced by a variety of demographic criteria; nevertheless, the income of families is the factor that plays the most significant effect in this regard.

Khan, I. (2021) An investigation on the methods by which households in both urban and rural parts of Odisha save money was carried out. When compared to their counterparts in rural regions, urban households were able to save a greater amount of money across the years. According to the findings, the key factors that contribute to low levels of savings are a high rate of inflation and high consumption expenditures by families. This was shown to be the case. It was discovered that the most significant factors that impacted the saving behaviour of families were the level of literacy, the quantity of money, and the number of dependents that were present in the household. Both the number of persons living in families and the reliance ratio were found to be higher in rural regions when compared to urban areas. This was discovered through research investigations. The literacy rate was found to be very high in urban regions, but it was found to be extremely low in rural areas. The average monthly income in the urban zone was much higher than the monthly income in the rural area. This difference was big enough to be considered remarkable. The bulk of money is spent on food, which accounts for around 44% of the total in urban regions and 52% of the total in rural areas alike. If we consider the many other components of consumer expenditure, we can see that food is the most expensive category. When compared to rural regions, however, the amount of money that was saved on a monthly basis was significantly higher in metropolitan areas.

Mumin, S. and Cilasun (2021) We conducted a study that looked at the income, consumption, and savings patterns of both formal and informal households in Turkey by using the Household Budget Survey from 2002 to 2006. This survey was conducted between the years 2002 and 2006. The families were divided into urban and rural areas according to their location, and it was found that there were significant disparities between the methods in which urban and rural households saved money. This was revealed when the families were separated into urban and rural regions. The analysis found that informal families are more likely to save more money for the purpose of taking measures because of the high level of economic uncertainty that they face. This was demonstrated by the fact that they are more likely to save more money.

Abid, S. and Afridi, G.S. (2010) The manner in which households in urban and rural areas of District Odisha, AJ&K conserve money were the subject of an inquiry that was carried out. In order to explore the influence of characteristics such as income, family size, geography, and education on the saving behaviour of families in the District of Odisha, an econometric model is developed for the aim of conducting empirical research. This research is intended to be carried out in order to investigate the impact of these factors. The findings allow for the conclusion that there is a substantial correlation between the ways in which families save money and the criteria that were supplied. This conclusion can be taken from the data. In addition, the behaviour of the household in terms of saving is favourably impacted by characteristics such as income and location, whereas the behaviour of the household in terms of saving is adversely influenced by factors such as education and the number of individuals in the family. As a result, it is clear that whenever people's earnings rise, they will also increase their savings, and that those living in rural areas save more than those living in urban areas do. While those with greater levels of education and bigger family sizes tend to save less money, those with lower levels of education save more. It was advised by them that the government of AJ&K should give subsidies for the general price levels and encourage the creation of jobs in the region.

Syndera, W.D. (2017) In the city of Nagpur, we conducted research on the investment habits of households who are classified as having a medium income. There are a number of significant concerns that have been the focus of the research that has been carried out. These concerns include those that pertain to the preferences of investment vehicles, investment patterns, and the various investment goals for families that belong to the middle class. Additionally, the research has focused on the rise in savings and the factors that have contributed to it. However, the age group to which the head of household belongs is also a factor that determines the choice of investment avenue. The income of families is the only factor that has a direct impact on investment preferences; however, the age group. In addition, the purpose of this study is to determine whether or not there is a distinction in the types of investment options that are accessible to persons of varied ages and income levels who are members of the middle-income class segment in Nagpur.

Bibi, S., Khan, U.A. and Bibi, A. (2012) The presence of total mobility of capital was proved to result in an increase in investment in a number of other countries, which in turn led to an increase in savings in one country. This was demonstrated by the fact that the situation was observed. This research, which investigates the existence of capital mobility and provides data for the years 1970-2021, does not uncover any direct connections between domestic saving and domestic investment. Rather, it focuses on the presence of capital mobility. It has been demonstrated that one of the criteria that influences investment activities is the degree to which trade operations are open.

Nayak, S. and Sethi, N. (2013) A key economic driver that need to be explored on both an individual and a family level is the act of saving money, as stated in the statement. One of the most fundamental problems in India is that the country's consumption is larger than its savings. As a consequence, low savings leads to bad investment, which in turn leads to less capital formation. This is one of the most significant obstacles that India faces. Within the context of rural households in western Odisha, the goal of this study is to analyse the patterns and factors that impact the habit of saving money. There is a significant difference in the patterns of saving and the factors that determine it in rural areas and those in metropolitan areas. According to the findings of the study, it was discovered that families living in rural areas had lower levels of education, were unaware of the benefits of saving money, and were unconcerned about their health problems. Additionally, the marginal propensity to spend was high in some income categories such as agricultural and non-agricultural workers, which resulted in a low propensity to save in comparison to working in other sectors. Furthermore, the marginal propensity to consume was high in certain income categories.

Nathridee, S. and Piyarat, K. (2015) In this study, we investigated the ways in which people save and invest their money, as well as the factors that impact the many forms of savings that people in Thailand engage in. Based on the findings of the investigation, it was found that the typical rate of saving was 29.17%. One of the key purposes of the money was to be utilised for expenses that would be incurred after retirement. As opposed to investing in financial assets such as government bonds, mutual funds, corporate bonds, and stock, the household had a propensity to invest more in conventional methods of saving, such as bank deposits, insurance policies, gold, and properties. This was in contrast to investing in alternatives, such as investing in financial assets.

Geetha, N. and Ramesh, M. (2011)performed study on the choices that Indian families make about their preferences in terms of investment. For the purpose of collecting information from the 210 people who took part in the survey, a questionnaire that was well structured was utilised. Additionally, a considerable amount of attention was dedicated to the influence that demographic characteristics have on personal choices about investments. A judgement was obtained that individuals are not aware of all the options for investing that are available to them, and they also lack a comprehension of securities. This was the conclusion that was reached.

Prakash and Sundar (2013) The researcher who carried out the study with the title "Analysis of Investor Perception and Preferences: Investment avenues" came to the conclusion that the majority of investors consult with their family and friends before making decisions regarding investments, and that the majority of investors prefer to invest in gold and silver before making any decisions.

Heena (2013) According to the findings of a study that was conducted with the title "Investors Behaviour towards Investment Avenues: A Study with Reference to Indore city," younger people show a larger interest in investing than older people and persons who fall into the middle age bracket. When it comes to investments, the vast majority of people go for those that do not carry any risk.

Bairagi and Rastogi (2013)the title of An empirical study with the title "An Empirical study of Saving Pattern and Investment Preferences of Individual Household with Reference to Pune city" reveals that the majority of investors have given their first preference to bank deposits as the most desired investment product. This suggests that bank deposits are the most prevalent investment product. To add insult to injury, the vast majority of investors make investments with the express intention of protecting their own safety.

Objectives of the Study

1. To It is important to investigate the ways in which urban households belonging to different income categories save and invest their money.
2. To Please highlight the elements that are encouraging investors to participate in a variety of different investment channels.

Income Effects on Saving Behavior

- An examination of the link between income and the rate of savings through the use of regression analysis
- Taking into account considerations of socioeconomic and demographic aspects
- Dissection of subgroups according to quartiles or deciles of income

Investment Behavior Across Income Groups

- An analysis of the distribution of investments (such as stocks, bonds, and real estate) according to the amount of income
- An analysis of the investor's risk tolerance and investment horizon concerns
- A contrast between different investing techniques, such as active management vs passive management

Factors Influencing Saving and Investment Choices

- An investigation of the factors that influence saving and investment behaviour in addition to income, such as age, education, and other aspects of financial literacy
- Behavioural biases that influence decision-making, such as loss aversion and framing effects, are examples of these.

Policy Implications

- An examination of the consequences of public policy for the encouragement of savings and investment among households
- The customisation of financial education and incentives to meet the needs of various income brackets
- Addressing the obstacles that prevent households with lower incomes from investing

Conclusion

Following the completion of the research, the researchers arrived at the conclusion that a variety of demographic parameters had an impact on the manner in which urban families saved money and made investments. The size of the household, the kind of home, the education level and job status of the person who is the head of the family, the number of persons in the household who are employees, the number of people who are dependent on the household, and the income of the household were all criteria that were considered. The behaviour of saving and investing shifts in a positive way when permanent forms of work are present, which is consistent with the hypothesis of permanent income. The choice of children shifts as a consequence of education, and educated families tend to favour smaller families since they reduce the amount of dependence on the head of the household, which in turn allows for more money to be saved and invested. When it comes to saving money and making investments, the behaviour of the family is significantly influenced by each and every one of the individual factors that have been discussed up to this point.

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