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Study Of Socio-Demographic Factors And Behavioural Biases In Investment Decisions Among Working Class With Special Reference To Latur City

¹Mr. A. K. Joshi & ²Dr. V. D. Dhumal

¹Lecturer & ²Assistant Professor

Faculty of Commerce & Management

Rajarshi Shahu Mahavidyalaya, Latur (Autonomous)

Abstract: In day-to-day activities we encounter with different individuals and situations and definitely no one will response or react to each individual and situation in same way as he or she reacts to anyone of them. This variability in our reactions depends upon so many factors. For instance, we may treat different individuals as per their age, occupation, closeness, social status, past experiences, etc. All the factors mentioned earlier create a perception about the person interacting with and stimulate our future responses and reactions. This response or reaction is none other than our behaviour and every human activity (non-economic or economic) is more or less influenced by his or her behaviour. Behaviour dominates a person's receptions of and responses or reactions to different stimuli. Though, behaviour is a subjective concept as it differs from person to person, in context like income, expenditure, savings and investment common reactions influenced by a certain stimulus can be identified. Thus, study of behaviour will definitely help in predicting an individual's future economic activities.

Behavioural Economics is discipline of study which focuses on how human psychology affects an individual's economic decisions which if influence a large number of people may create a significant impact of financial system prevailing in an economy. Behavioural Finance deals with how the mentality of an individual influences his investment decisions. However, the scope of behavioural finance is not limited with only investing decisions rather it also touches his spending and saving habits as the expenditure, savings and investment are interrelated.

The present research paper tries to analyse common investment behaviour among the sample and also find out if there is any association with the socio-demographic characteristics of individuals.

Keywords: Behavioural Economics, Behavioural Finance, Investment, Investor's Psychology, Behavioural Biases

I. INTRODUCTION

Behavioural Finance is an emerging field of behavioural economics. Behavioural Economics is the integration of psychology and economics. It examines the supremacy of emotions and cognitions of individuals over their economic decisions. Robbins defines, "economics as the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses." Economics assumes that a person will always allocate the available resources in such way that his satisfaction will maximize at a cost of minimum sacrifice. This behaviour of person is called as rational behaviour and such a person is called as rational person. A rational person will always try to maximize his satisfaction in every economic decision.

However, satisfaction being a subjective term will differ from person to person. In addition, classical economics does not provide any ideal unit for measuring satisfaction. Cardinal approach of measuring satisfaction is impracticable as satisfaction being an abstract concept cannot be quantified. Ordinal approach does not quantify the satisfaction rather explains how consumers will prefer an optimum mix of two commodities which maximizes his satisfaction. But ordinal approach also assumes the rational behaviour of individual.

Does every person behave rationally every time? The answer is definitely no. A person may not take rational decisions every time. A person may buy some commodities which might not be useful to him at all. Some may buy goods under influence of recent trends, advertisement or peer pressure. So, such situations just cannot be neglected by giving a hypothetical precondition of '*ceteris paribus*'. Thus, rationality is not the single factor which exercises control over the economic decisions of individuals rather there are multiple factors which influence the decisions. These different factors affect individuals' mentality, economic objectives and perception regarding satisfaction. It results into a change in his behaviour and such a behaviour may force him to take such decisions which may prove irrational later.

Behavioural Economics studies the irrational behaviour of individuals while taking economic decision. Behavioural Finance follows Behavioural Economics and tries to answer the causes of irrational investment decisions taken by investors. Similar to consumer theory, in classical economics there were some assumptions regarding investor also...

1. Investors have complete knowledge regarding the prevailing market conditions.
2. They base their investment decisions on available information.
3. They have a clarity about their future expected return. and
4. They take rational decisions after considering all these aspects.

However, the social scientist today accepts that above long term held assumptions are not capable to answer problems of today's investment scenario. The investment today is not driven by logical or rational thinking of investors but is based on his perception about the market, the information he receives, interpretation and misinterpretation of information, future market expectations and emotions which trigger him to invest in a certain financial asset. All the elements discussed are a part and parcel of behaviour. Thus, investment decisions of today's investor are influenced by cognition and emotions or that what is commonly known as behaviour.

An individual's investment is significantly affected by set of perceptions, beliefs and emotions held by the person which may sometimes result into a wrong investment choice. In behavioural finance, such psychological elements which causes a person to make a wrong investment decision are termed as 'Behavioural Biases'.

Behavioural Bias is not a single phenomenon rather it is a set of complex prejudices held by investor which induce him to take different decision from what he was expected to take. These are not the arbitrary intuitions of mind but are the outcomes of a combined effect of different elements in the environment to which the investor is exposed.

A behavioural bias may get triggered by market factors like price fluctuations, recent trends in fashions, rumours in market etc. It also depends upon an investor's risk tolerance, liquidity, diversification in assets. In addition, socio-demographic factors like gender, level of education, age, income, profession, family conditions also affect the behavioural biases. A person may hold one or more than one behavioural bias while making a single investment decision.

II. STATEMENT OF THE PROBLEM:

The present research paper primarily aims to correlate between the socio demographic factors of working class in Latur city with their behavioural biases identified in their investment habits. It also aims to check the awareness among the working class about different investment options and investment preference in terms of risk and return.

III. REVIEW OF LITERATURE:

Dr. Girish Kumar (2022), has reviewed recent research papers on behavioural biases such as overconfidence, herd behaviour, loss aversion, anchoring and regret aversion. He examined total 123 research papers and assessed the impact of behavioural biases on the investment judgements of people. He also suggested probable solutions to overcome these biases and make a sound financial decision.

Anju K. J. and Anuradha P. S. (2015) in their research paper 'Determinants of Investor's Behaviour – An Analytical Review' conducted an extensive study on 84 research articles from 1974 to 2014 and compiled the information about sample size, research methodology and their findings. They identified different segments and factors that influence investor's saving and investment decision. Some of the prominent factors were cognitive factors like gambler's fallacy, heuristics and overconfidence effect.

Vaishnavi Seth and Sharad Kumar (2020), has conducted a survey in Mumbai city on a sample of 81 respondents. They found that there exists a correlation between investors decision and behavioural biases like Representativeness, Hindsight and Regret Aversion Bias. Their study was carried on the basis of correlation and multiple regression analysis. On the basis of the findings, they recommended investors to seek expert's advice to avoid the adverse impact of these biases on their investment.

Greeshma Francis (2023), in her research paper 'Behavioural Biases and Investment Decision – An Overview' briefly summarized and explained various cognitive and emotional biases in investment judgement making. She elaborated the difference between traditional finance theories and behavioural finance and also its resultant irrational investment decisions.

Dr. N. Ramanjaneyalu and Mrs. Prateeksha Deshpande (2024), analyzed the effect of mental accounting bias on purchase decision of life insurance products. Their study concluded that the mental accounting bias significantly influences the decision to purchase a life insurance policy. They also tested the same for decision framing bias. However, the analysis revealed that there isn't any significant influence of decision framing bias on the purchase decision.

IV. HYPOTHESES OF STUDY:

For the purpose of the study following hypotheses are formulated...

H₀: There is no significant difference between the socio-demographic factors (e.g. gender, age, education level and occupation) and behavioural biases prevailing in the investment decisions of working class.

H₁: There is a significant difference between the socio-demographic factors (e.g. gender, age, education level and occupation) and behavioural biases prevailing in the investment decisions of working class.

V. RESEARCH METHODOLOGY:

For the purpose of this study both primary and secondary data is being used. Simple Random Sampling was used to select the respondents. Primary data is collected by the scholar through questionnaire method. The questionnaire was divided into two parts i.e. I. Questions relating to the socio-demographic profile of respondents and their investment awareness & preference. II. Questions which assess the behavioural biases among the investors in their investing habits. The data collected is classified and tabulated for easy analysis and interpretation. The data was analyzed with the help of statistical tools like percentage, bar-diagrams, charts etc. The interpretations were drawn on the basis of analysis and the hypotheses were tested by using Chi-square test. Finally, the findings and interpretations are compiled and conclusion is drawn.

VI. DATA ANALYSIS & INTERPRETATION:

Total 134 responses were collected with help of questionnaire prepared on Google Forms. 18 responses were eliminated due to either incompleteness, errors while filling the form or inappropriate response. Thus, 116 responses are considered for analysis and interpretation. Descriptive Statistics and Inferential Statistics are used to analyze and interpret the data along with testing the hypotheses.

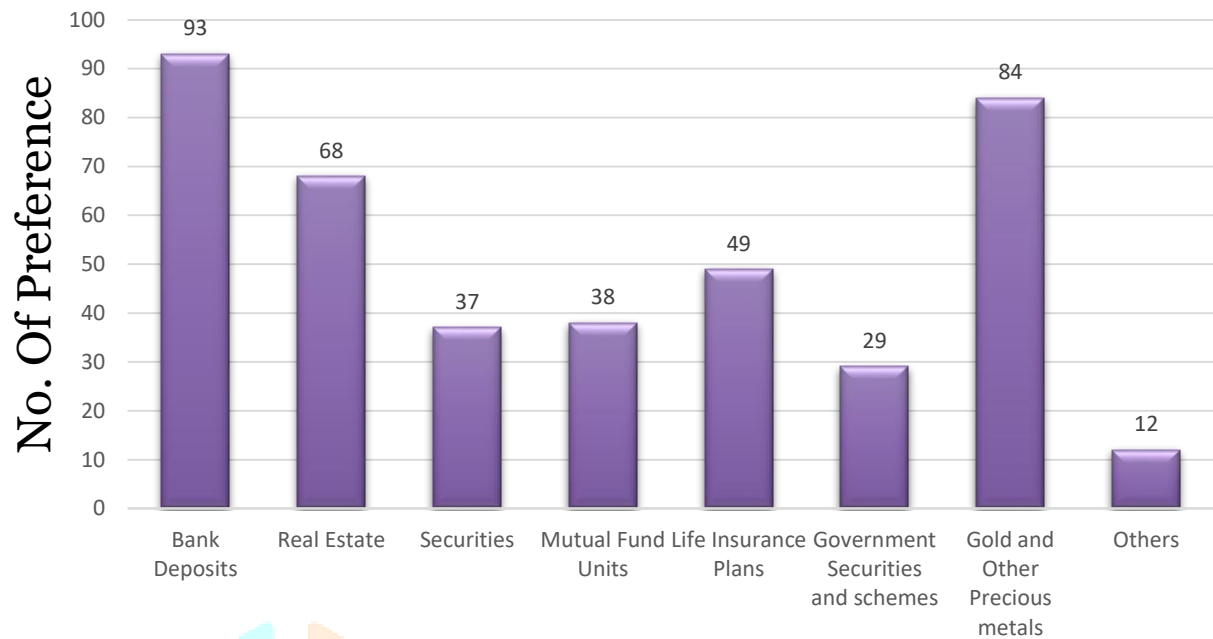
Table No. 1: Socio-Demographic Profile of Respondents

Socio-demographic Factor	Category	Frequency	Percentage
Gender	Male	78	67.24%
	Female	38	32.76%
Age	Below 18	9	07.76%
	18 to 30	70	60.34%
	30 to 60	23	19.83%
	60 and above	14	12.07%
Education Level	Up to 10 th	20	17.24%
	Up to 12 th or Diploma	15	12.93%
	Graduation	23	19.83%
	Post Graduation	58	50.00%
Occupation	Salaried Person	70	60.34%
	Businessman or Professional	17	14.66%
	Farmer	9	07.76%
	Casual Labourer	11	09.48%
	Other	9	07.76%

(Source: Primary Data collected by researcher)

The above table portrays the socio-demographic profile of the respondents. The sample contains 67.24% male respondents and 32.76% female respondents. Most of the respondents were 18 to 30 years old and 50% holds a post graduate degree. Approximately 60% were salaried persons and 15% had their own business or profession.

Investment Preferences



Investment Options

Chart No. 1: Investment Preferences of Respondents

The above chart shows the different investment options preferred by the respondents. Most of the respondents prefer to invest their money in Bank deposit like fixed deposit. Their second preference is of gold and precious metals as an investment option. 42% of the respondents consider life insurance products as investment opportunity. Only 30% of the respondents prefer to invest in share market and mutual fund and approximately 10% respondents prefer to invest in SIP and crypto currencies.

Table No. 2: Assessment of Behavioural Biases among respondents

Behavioural Bias	Question	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total
Overconfidence Bias	While making any investment, I feel very sure about the appropriateness of my investment choice.	44	52	9	11	0	116
Loss Aversion Bias	I would prefer to invest in an instrument having a chance to lose Rs. 1000 or lose nothing over an instrument having a loss of 500.	18	55	17	23	3	116

Heuristics	In case of having more than one investment options, it is better to allocate the funds in all the investments equally.	43	35	9	23	6	116
Herd Behaviour	I usually decide my investments by considering investment decisions of my friends, relatives and colleagues.	29	35	23	20	9	116
Mental Accounting	I do prefer to diversify investments according to their purpose and application of their returns	35	61	14	3	3	116
Representativeness	I do believe to take investment decisions on the basis of recent, past performance of investment options	32	46	17	15	6	116
Availability Bias	I do frequently change my investment decisions as per new information received from market	17	35	23	29	12	116
Confirmation Bias	I always try to find information which supports my investment decisions.	49	46	6	12	3	116
Status Quo Bias	I prefer to stick with my current investment choices even if they underperform.	17	35	20	29	15	116

Gambler's Fallacy	I believe an investment option which have underperformed for a series of intervals will have a greater chance of higher returns in future.	40	46	12	12	6	116
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(Source: Primary Data collected by researcher)

The above table highlights the degree of acceptance of respondents towards different behavioural biases. The above questions aim to evaluate the intensity of a particular behavioural bias while making any investment decision. A detail analysis of table reveals that the respondents more or less agree upon the fact that their investment decisions are influenced by one or more behavioural biases.

Table No. 3: Testing of Hypotheses by using Chi-square Test

Behavioural Bias	Socio demographic factor	Calculated Value	Degree of Freedom	Table Value ($\alpha = 5\%$)	Accept or Reject Ho
Overconfidence Bias	Gender	4.346	4	9.488	Accept Ho
	Age Group	13.0612	12	21.026	Accept Ho
	Education Level	30.4675	12	21.026	Reject Ho
	Occupation	13.3086	16	26.296	Accept Ho
Loss Aversion Bias	Gender	4.9771	4	9.488	Accept Ho
	Age Group	35.2615	12	21.026	Reject Ho
	Education Level	41.7732	12	21.026	Reject Ho
	Occupation	27.332	16	26.296	Reject Ho
Heuristics	Gender	17.5348	4	9.488	Reject Ho
	Age Group	33.4068	12	21.026	Reject Ho
	Education Level	22.5168	12	21.026	Reject Ho
	Occupation	31.3163	16	26.296	Reject Ho
Herd Behaviour	Gender	2.7387	4	9.488	Accept Ho
	Age Group	63.7083	12	21.026	Reject Ho
	Education Level	39.5962	12	21.026	Reject Ho
	Occupation	60.6489	16	26.296	Reject Ho
Mental Accounting	Gender	18.6924	4	9.488	Reject Ho
	Age Group	98.2247	12	21.026	Reject Ho
	Education Level	49.4538	12	21.026	Reject Ho

	Occupation	88.074	16	26.296	Reject Ho
Representativeness	Gender	6.5336	4	9.488	Accept Ho
	Age Group	34.5357	12	21.026	Reject Ho
	Education Level	66.4665	12	21.026	Reject Ho
	Occupation	56.0081	16	26.296	Reject Ho
Availability Bias	Gender	5.8129	4	9.488	Accept Ho
	Age Group	67.3364	12	21.026	Reject Ho
	Education Level	22.9537	12	21.026	Reject Ho
	Occupation	36.8305	16	26.296	Reject Ho
Confirmation Bias	Gender	24.517	4	9.488	Reject Ho
	Age Group	42.0249	12	21.026	Reject Ho
	Education Level	32.5674	12	21.026	Reject Ho
	Occupation	73.4913	16	26.296	Reject Ho
Status Quo Bias	Gender	4.3625	4	9.488	Accept Ho
	Age Group	61.3096	12	21.026	Reject Ho
	Education Level	67.8957	12	21.026	Reject Ho
	Occupation	81.0674	16	26.296	Reject Ho
Gambler's Fallacy	Gender	18.7909	4	9.488	Reject Ho
	Age Group	80.4939	12	21.026	Reject Ho
	Education Level	38.9726	12	21.026	Reject Ho
	Occupation	28.7825	16	26.296	Reject Ho

(Source: Primary Data collected by researcher)

The above table puts forth the variations in behavioural biases possessed by an individual due to his or her socio-demographics. Behavioural biases like Heuristics, Mental Accounting, Confirmation Bias and Gambler's Fallacy significantly differs from person to person as per his or her socio demographics. Also, it can be observed that there is less likely to be a significant difference in behavioural biases prevailing in investment decisions of male and female respondents. Additionally, the overconfidence bias significantly differs only as per the educational level of the respondents. The remaining biases are present or absent in the investment behaviour according to different demographic factors.

VII. CONCLUSION:

Behavioural Finance is an evolving field of knowledge which focuses on the association of investment decisions with the perception and emotions of humans. Unlike standard finance theories, it assumes that the investors do not always behave rationally. Most of the times they make investment decision under the influence of one or more cognitive or emotive anomalies called 'Behavioural Biases'.

The present study aims to analyze the behavioural biases present in the working class and its association with socio-demographic factors. In-depth analysis reveals that presence or absence of a behavioural bias is more or less affected by factors like gender, age, level of education and occupation of a

particular investor. Most of the behavioural biases differs in degrees from person to person and also it is observed that these biases may not be significantly different for persons having different demographic features.

VIII. SCOPE FOR FURTHER RESEARCH:

The present study only covers the working class of Latur city so similar kinds of research can be undertaken for different sections of society and even in different geographical locations. Also, the study is conducted on the basis of a non-directional hypothesis only. Reserachers can carry further research on the basis of directional hypothesis which will state such factors or characteristics that increases the exposure of an individual to behavioural biases.

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