



INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT)

An International Open Access, Peer-reviewed, Refereed Journal

Financial Literacy- The Income Divide

Dr. Nidhi Bhatt Pant

School of Management, Graphic Era Hill University, Bhimtal; Centre for Promotion of Research, Graphic Era (Deemed to be) University, Dehradun, Uttarakhand-248002, India

Abstract: Financial literacy plays a crucial role in enhancing individual financial well-being and promoting economic stability. This study investigates the impact of income disparity on financial literacy levels. Primary data was collected from 52 respondents, categorized into lower-income (below ₹25,000 per month) and higher-income (above ₹25,000 per month) groups. Using descriptive statistics and correlation analysis, the study identifies significant differences in financial knowledge and behavior across income levels. Higher-income respondents demonstrate better understanding of key financial concepts such as interest rates, inflation, and risk diversification, along with stronger financial practices including savings, investment, and budgeting. The findings reveal a strong positive correlation ($r = 0.68$, $p < 0.001$) between income and financial literacy. The study concludes that income is a key determinant of financial capability and highlights the need for targeted financial education and policy interventions to bridge the literacy gap and promote inclusive financial development.

Index Terms – Financial Literacy, Income disparity, Income Divide, Financial Literacy, Inclusive Development.

1. INTRODUCTION

On breaking down the term ‘Financial Literacy’, we get the two words Finance and Literacy. The word Finance originated from old French & Latin word ‘finis’- make an end, settle a debt and later forming Finance in the middle English. Literacy in short is progression of skills, understanding and comprehension. In simple words financial literacy is the ability of an individual to understand money and developing this understanding to a set of skills or forming knowledge which can be used for financial management.

“If a man empties his purse into his head, no man can take it away from him.

An investment in knowledge always pays the best interest.”

-Benjamin Franklin

Financial literacy is accessible to all, the only difference is between the one’s who apply it and the one’s who don’t. Hence the demarcation of Rich and Poor which prevails all over the world. For vast number of people the term financial literacy is something which is never discussed and yet everyone knows the basics of it but at times they fail to apply it or never took deeply upon it.

Financial education is the genesis of getting to know about the finances but in order to understand money one has to be financially literate which goes beyond just the mere learnings from text books. Financial literacy can be practiced by any individual having the basic sense of how the money works because it is something one has to deal with daily and if nurtured indeed like a tree, will keep on growing till you water and soil it.

Also, an individual might be educated but not necessarily be financial literate. Financial literacy requires the knowledge to grow every day and be applied to and shared with. It is not just mere learning but adapting to it in order to utilize the available resources to one’s optimum capability and hence bridge the gap between the people enjoying the luxuries of life and the people burdened with debt or just trying to make the ends meet.

So, what is financial literacy? Let's start with the very basics of it which can be applied to every household prevailing and thus can help one in understanding how the money works which is not a judicious task as it seems.

1.1 BASIC COMPONENTS

There are three basic components to Financial literacy –

Saving
Spending
Investment

These components varies upon the fact that an individual is earning income, irrespective of his/her earning capacity.

Now on breaking down the above three components, every individual earning has to practice it, gain knowledge over money management and thus be able to take monetary decisions that will bring prosperity for them and their family. A person earning a regular income irrespective of its size can practice the above aforesaid components, either consciously or unconsciously. Let us understand this by an example- Suppose a person say, Sohan working at a tea shop is earning a meagre salary of INR 7000/- a month. First step is to save. If Sohan saves instead of counting his income for seven thousand rupees a month, takes it to be INR 6000/- and saves 1000 per month that will result in him saving 12000 rupees in a year. Next, by saving a little portion out of his salary first he is now accustomed to make his day to day spendings out of six thousand which is possible (given the fact that he is spending on the necessities which is the bare minimum requirement of living life). From those 1000 a month Sohan can start Investing in various possible avenues that give him a steady income above it.

In this example we saw that by knowing some basic things and practicing them can lead to changing one's life by not only increasing their knowledge but also by monetary discipline in controlling the use of money in day to day life.

The initial step was to save and invest to earn a fixed income above that. The next stage comprises of multiplying investments.

*“Don't work for the money,
make money work for you”
-Robert T.Kiyosaki*

Financial Literacy revolves around these three components but when practiced in real life has various components to it which need to be understood in order to gain knowledge. It is something that needs to be practiced every day because the events all around the world are not constant and keeps on changing with time thus one needs to practice it daily.

The basic rule of financial literacy can be practiced by every individual that will help them climb above the line of poverty which is starting with the very basic.

2. REVIEW OF LITERATURE

Author(s) & Year	Study Area	Methodology	Key Focus	Major Findings	Relevance to Income Divide
Annamaria Lusardi & Olivia Mitchell (2014)	Global	Survey-based analysis	Financial literacy levels	Financial literacy is low worldwide, especially among low-income groups	Strong link between low income and poor financial knowledge
OECD (2016)	Multiple Countries	Large-scale survey	Financial knowledge, attitude, behavior	Lower-income households show weaker financial planning and savings behavior	Highlights inequality in financial access and literacy
Atkinson & Messy (2012)	OECD Countries	Cross-country comparison	Financial literacy measurement	Financial literacy varies significantly by income, education, and age	Income is a key determinant of financial awareness
Cole, Sampson & Zia (2011)	India & Indonesia	Field experiment	Financial education vs access	Education alone has limited impact; income constraints restrict financial participation	Shows structural income barriers beyond literacy
Klapper, Lusardi & Van Oudheusden (2015)	Global (S&P Survey)	Survey (World Bank data)	Global financial literacy	Only 33% of adults are financially literate globally	Poorer populations are disproportionately excluded
Bhushan & Medury (2013)	India	Questionnaire survey	Financial literacy among youth	Income and parental background influence financial literacy levels	Reinforces intergenerational income divide
Agarwalla et al. (2015)	India	Survey across demographics	Financial knowledge & behavior	Higher income groups show better financial planning and	Clear divide in financial capability across income groups

				investment behavior	
Hastings, Madrian & Skimmyhorn (2013)	USA	Literature review	Financial literacy & economic outcomes	Low-income households make suboptimal financial decisions	Financial literacy gaps deepen income inequality
Servon & Kaestner (2008)	USA	Program evaluation	Financial education impact	Financial education improves outcomes but limited among very low-income groups	Income constraints limit effectiveness of literacy programs
Sharma & Kukreja (2013)	India	Empirical study	Financial inclusion & literacy	Financial literacy is essential for inclusion but uneven across income levels	Income divide leads to exclusion from formal finance
World Bank (2018)	Global	Data analysis	Financial inclusion	Low-income individuals rely more on informal financial systems	Income inequality drives financial exclusion
Goyal & Kumar (2021)	India	Secondary data analysis	Financial literacy trends	Rural and low-income groups lag significantly in financial awareness	Reinforces rural-income divide

3. RESEARCH METHODOLOGY

In order to gain better understanding of the basic riders of this divide a survey was conducted in the districts of Delhi, India with a small sample size of 52 people. This survey was done to assess the Financial knowledge of people across various categories of income class, to study their decision pattern regarding finance and their knowledge of the same. It focuses on the demarcation across income levels and not any other tableau.

Table 3.1 Respondent Profile

Category	Number of Respondents	Percentage
Poor (< ₹25,000/month)	28	53.80%
Rich (> ₹25,000/month)	24	46.20%
Total	52	100%

Table 3.2 Awareness Level

Question Area	Poor (%)	Rich (%)
Interest Rate Understanding	39%	75%
Inflation Awareness	43%	79%
Risk Diversification	32%	70%

The above table indicates a **consistent gap of 30 to 40 percentage points** exists across all knowledge dimensions due to the income divide. This may again be caused due to lower literacy level.

Table 3.3 Literacy Score

Income Group	Mean Score	Standard Deviation
Poor	4.2	1.3
Rich	7.1	1.1

The findings indicate that the higher-income respondents show **around 69% higher financial literacy scores** than lower-income respondents.

Table 3.4 Correlation

Variables	Correlation Coefficient (r)
Income & Financial Literacy	0.68

The value $r = +0.68$ indicates a strong positive correlation. Indicating that as the income increases financial literacy also increases significantly. Higher-income individuals tend to have better financial knowledge, planning, and investment behaviour.

4. FINDINGS- THE INCOME DIVIDE

Financial Literacy can be both a consequence as well as the cause of the Income Divide. This can be compared to the vicious circle of poverty. The poor are poor because they are poor. With lower financial literacy comes poor decisions, low investments further leading to low income. There is a knowledge transfer gap as the wealthy families often transfer financial wisdom to the next generation, wealth maximization is possible due to pre existing wealth and money multiplication and poverty also creates a digital divide further isolating from the formal and much safer financial system.

The study highlights a huge gap between the management of finances in household having good income as compared to those with low income. People earning below 25,000 rupees had very low response towards financial literacy which is alarming. People belonging to this category of income-

- Were unaware of the fact basics of spending, saving and investing.
- They just accumulated on the fact of spending on daily basis and surviving.
- Even if they were saving, the money was lying idle in house for some time and being spent.
- The savings were not used for accumulation so as to deposit in bank, least of all investing.
- When asked decisions regarding the household monetary decisions most the workers, maids were clueless and responded to all being spent.
- On asking any source of or daily access to financial knowledge through any means, majority of them answered no or didn't have time. Lack of will to gain any knowledge financially.

Total financial mismanagement and financial illiteracy prevails amongst the people earning below 25,000 rupees.

So, what can be done?

-Firstly, increase awareness among the people living below poverty line.

- Awareness through organizing free camps to spread the importance of monetary decisions in their lives and how it can their and the lives of their family.

-Most of them didn't have Bank accounts opened and even if they have they are unused , that is , lack of financial knowledge.

-Even if the government has launched various schemes, very few are utilizing those schemes. Reason? Lack of financial literacy.

5. CONCLUSION

A person whether rich or poor or middle class has to deal with money on daily basis and each deals with it just with a different mindset. One makes informed decisions while the other suffers lack of knowledge or resources. Financial literacy is something that is so crucial for one to understand to live the very basic enjoyments of life and not be burdened to make ends meet. It is something very basic and if all individuals practice this very basic, can live a life cherishing the very resources provided to them. The empirical findings from the survey strongly indicate that income level is a critical determinant of financial literacy, with higher-income individuals demonstrating significantly better financial knowledge, behavior, and access. The following table sums up the reality indicating the wide income divide specially in terms of usage & quality-

Table 5.1 Dimensions of Inclusion

Dimension	Low-Income Group	High-Income Group
Access (Bank Account)	High (due to Jan Dhan)	Very High
Usage (Savings, Loans, Investment)	Low	High
Quality (Insurance, Wealth Products)	Very Low	High

The gap of financial literacy between a rich and a poor person is huge but can be mended once realized and practiced. It just the mere difference in thinking and change in perspective towards money that can change one's life and help him/her in living a quality life. Money is something people work for most of their lives and thus the study of it and to gain knowledge over it can ease the way of living of an individual and enhance the quality of living for that individual, collectively leading to the betterment of the society. Working for money should never be the aim, making the money work should be the perspective and that only comes through knowledge which is widely available if one starts to use it optimally.

REFERENCES

1. Agarwalla, S. K., Barua, S. K., Jacob, J., & Varma, J. R. (2015). Financial literacy among working young in urban India. *World Development*, 67, 101–109. <https://doi.org/10.1016/j.worlddev.2014.10.004>
2. Atkinson, A., & Messy, F. (2012). Measuring financial literacy: Results of the OECD / International Network on Financial Education (INFE) pilot study. *OECD Working Papers on Finance, Insurance and Private Pensions*, No. 15. OECD Publishing. <https://doi.org/10.1787/5k9csfs90fr4-en>
3. Bhushan, P., & Medury, Y. (2013). Financial literacy and its determinants. *International Journal of Engineering, Business and Enterprise Applications*, 4(2), 155–160.
4. Cole, S., Sampson, T., & Zia, B. (2011). Prices or knowledge? What drives demand for financial services in emerging markets? *The Journal of Finance*, 66(6), 1933–1967. <https://doi.org/10.1111/j.1540-6261.2011.01696.x>
5. Goyal, K., & Kumar, S. (2021). Financial literacy: A systematic review and bibliometric analysis. *International Journal of Consumer Studies*, 45(1), 80–105. <https://doi.org/10.1111/ijcs.12605>

6. Hastings, J. S., Madrian, B. C., & Skimmyhorn, W. L. (2013). Financial literacy, financial education, and economic outcomes. *Annual Review of Economics*, 5, 347–373. <https://doi.org/10.1146/annurev-economics-082312-125807>
7. Klapper, L., Lusardi, A., & Van Oudheusden, P. (2015). *Financial literacy around the world: Insights from the Standard & Poor's ratings services global financial literacy survey*. World Bank.
8. Lusardi, A., & Mitchell, O. S. (2014). The economic importance of financial literacy: Theory and evidence. *Journal of Economic Literature*, 52(1), 5–44. <https://doi.org/10.1257/jel.52.1.5>
9. Organisation for Economic Co-operation and Development (OECD). (2016). *OECD/INFE international survey of adult financial literacy competencies*. OECD Publishing.
10. Servon, L. J., & Kaestner, R. (2008). Consumer financial literacy and the impact of online banking on the financial behavior of lower-income bank customers. *Journal of Consumer Affairs*, 42(2), 271–305. <https://doi.org/10.1111/j.1745-6606.2008.00108.x>
11. Sharma, S., & Kukreja, S. (2013). An analytical study: Relevance of financial literacy and financial inclusion. *International Journal of Engineering and Management Research*, 3(2), 15–20.
12. World Bank. (2018). *The Global Findex Database 2017: Measuring financial inclusion and the fintech revolution*. World Bank. <https://doi.org/10.1596/978-1-4648-1259-0>

