IJCRT.ORG ISSN : 2320-2882

INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT)

An International Open Access, Peer-reviewed, Refereed Journal

Managing Household Finance - A Study On Financial Knowledge And Behaviour Of Rural Households

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Abstract:

Effective home financial management is necessary to achieve long-term security and financial stability. Among the crucial aspects of household financial management that are investigated in this study are budgeting, saving, investing, debt management, and financial planning. It highlights how important it is to set financial goals, keep an eye on income and expenses, and make wise financial decisions in order to optimize resources. The study also examines how asset accumulation and reduced financial stress are caused by financial literacy and disciplined spending habits. By adopting sound financial practices, households can increase their economic resilience and achieve financial independence.

Keywords:

Household Budgeting, Savings and Investments, Income and Expenditure, Debt Management, Financial Planning, Risk Management, Emergency Fund, Inflation Impact

Introduction:

For economic stability and long-term well-being, households must practice effective financial management, especially in rural areas where income sources can fluctuate. This study investigates rural people' financial behavior and knowledge, looking at their borrowing, investing, and saving practices. The study intends to provide light on the variables influencing rural households' financial decisions and the difficulties they encounter by examining how they handle their income and expenses. Additionally, it clarifies how financial literacy contributes to the financial stability of households, ultimately offering information that can help financial institutions and regulators create more effective financial inclusion plans.

Due to a lack of formal financial education, erratic wages, and restricted access to banking services, rural people frequently face particular financial difficulties. Developing methods that support sustainable financial management and economic resilience requires an understanding of their financial behavior. This study investigates the effects of spending patterns, debt management, savings culture, and financial literacy on rural households' overall financial well-being. By evaluating these variables, the study seeks to offer suggestions for raising financial literacy, promoting prudent financial practices, and stimulating economic development in rural areas.

Statement of problem:

Managing household finances is a critical aspect of economic well-being, particularly in rural areas where financial literacy and structured financial behavior are often limited. Many rural households struggle with inadequate financial knowledge, ineffective budgeting, and lack of awareness about formal financial services, leading to sub-optimal financial decision-making. This study seeks to examine the level of financial knowledge and behavior among rural households, identifying key challenges and gaps that impact their financial stability. By understanding these factors, the study aims to provide insights into improving financial literacy and promoting sound financial practices for sustainable household financial management.

Objectives:

- To identify and examine the financial knowledge of rural households.
- To evaluate the impact of financial literacy of rural households.
- To examine the financial behavior of rural people.

Research Methodology:

A vital component of economic well-being is managing household finances, especially in rural areas where structured financial behavior and financial literacy are frequently lacking. Many rural households make less-than-ideal financial decisions as a result of poor budgeting, a lack of understanding of formal financial institutions, and a lack of financial literacy. In order to identify important issues and gaps that affect rural households' financial stability, this study aims to investigate the degree of financial behavior and knowledge among them. By comprehending these elements, the study hopes to shed light on how to raise financial literacy and encourage prudent financial behavior for long-term household financial management.

Sample Design:

To guarantee a varied representation of rural households with a range of income levels, occupations, and educational backgrounds, the study uses a stratified random sample technique. Rural families from Ramayanpatti in the Tirunelveli district are part of the target group. A sample size of 100 respondents was chosen based on statistical adequacy for insightful analysis. Insights on financial literacy, budgeting practices, savings, investments, and borrowing behavior are gathered through structured surveys and interviews. To find trends and connections in financial behavior and knowledge, the responses are examined using descriptive and inferential statistical methods. In addition to providing useful suggestions to raise financial literacy and economic stability in rural areas, our sample strategy guarantees a thorough grasp of household financial management.

Statistical Tools:

1. Correlation
2. Chi-Square
3. Anova

Limitations of the study:

The research on household finance management, with an emphasis on rural households' financial behavior and understanding, has limitations. First of all, because the results are based on a particular geographic area, they could not be as applicable to other rural places with various socioeconomic circumstances. Second, the study uses self-reported data, which could lead to recollection errors or social desirability biases in the responses. Furthermore, the variety of financial practices and difficulties encountered by all rural households may not be adequately represented by the sample size. Finally, this study did not fully examine external elements that can drastically affect financial decision-making, such as government regulations, inflation, and financial institution accessibility.

Review of literature:

NABARD (2024) – "Empowering Rural India: NABARD Survey on Rural Financial Inclusion" The National Bank for Agriculture and Rural Development conducted a survey assessing changes in economic and financial indicators in rural areas since 2016-The findings indicate a 57.6% increase in average monthly household income over five years, suggesting improved financial well-being among rural households.

Rath & Patra (2023) – "An Empirical Study on Financial Literacy in India" This research investigates the meaning and importance of financial literacy among rural households in India. It emphasizes that financial literacy is crucial for effective money management, including expenditure, savings, investment, and borrowings, and highlights the need for financial education to improve financial stability.

Analysis:

1. CORRELATION BETWEEN THE SAVING AND SPENDING NATURE

Correlations			
		percentage of income saved monthly	spending maximum money
percentage of income saved monthly	Pearson Correlation	1	-.227*
	Sig. (2-tailed)		0.023
	N	100	100
spending maximum money	Pearson Correlation	-.227*	1
	Sig. (2-tailed)	0.023	
	N	100	100

(Primary data)

INTERPRETATION:

There is a negative correlation (-0.227) between "percentage of income saved monthly" and "spending maximum money." This suggests that as the percentage of income saved increases, spending on maximum money decreases, and vice versa. However, the relationship is weak. Although the relationship is statistically significant, the correlation strength is weak, meaning other factors may also influence spending and saving habits.

2. EDUCATION LEVEL & BUDGET FRAMING IN THE HOUSEHOLDS

Chi-Square Tests			
	Value	**df**	**Asymptotic Significance (2-sided)**
Pearson Chi-Square	12.742[a]	9	0.175
Likelihood Ratio	14.273	9	0.113
Linear-by-Linear Association	0.007	1	0.932
N of Valid Cases	100		

(Primary data)

INTERPRETATION:

This is the primary test statistic used to determine if there is a significant association between two categorical variables. The p-value (0.175) is greater than 0.05, indicating that there is no statistically significant association between the variables. Since all p-values (0.175, 0.113, and 0.932) are greater than 0.05, there is no statistically significant association between the variables.

3. ANOVA ON PERCENTAGE OF SAVING, INVESTMENT AND SPENDING

		Sum of Squares	df	Mean Square	F	Sig.
percentage of income saved monthly	Between Groups	14.478	3	4.826	14.586	0
	Within Groups	31.762	96	0.331		
	Total	46.24	99			
investment	Between Groups	8.843	3	2.948	2.995	0.035
	Within Groups	94.467	96	0.984		
	Total	103.31	99			
Purpose of spending maximum money	Between Groups	13.939	3	4.646	10.068	0
	Within Groups	44.301	96	0.461		
	Total	58.24	99			

(Primary data)

INTERPRETATION:

The p-value (0.000) is less than 0.05, indicating a statistically significant difference between the groups in terms of the percentage of income saved monthly. The p-value (0.035) is also less than 0.05, meaning there is a statistically significant difference between groups concerning investment. However, the F-value is lower compared to the other variables, suggesting a weaker effect. The p-value (0.000) indicates a statistically significant difference between groups in terms of the purpose of spending maximum money. The F-value is high, implying a strong effect. There are significant differences among the groups for all three variables.

Conclusion:

According to a study on rural households' financial management, financial behavior and knowledge are essential to economic stability. According to the results, there are gaps in investment planning, debt management, and financial services awareness even though many rural families have a basic understanding of financial management. Inadequate financial education and restricted access to banking facilities further impede sound financial decision-making. The report recommends putting in place financial literacy programs, boosting government financial inclusion programs, and promoting the use of traditional banking and electronic payment methods as ways to overcome these obstacles. By increasing knowledge of risk mitigation, credit management, and savings techniques, rural households will be better equipped to make wise financial decisions and eventually see an improvement in their fiscal health.

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