

Anila C. “An Analysis of Saving and Investment Behaviour of Urban Households in Kerala. “ Thesis. Research and Post Graduate Department of Economics, St. Thomas’ College (Autonomous), Thrissur, University of Calicut, 2021.

## **Chapter- I**

### **Design of the Study**

#### **1.1 Introduction**

Savings and investment are important drivers in taking the economic growth process forward. The development of a nation's productive capacity requires capital formation which can be done either by utilizing domestic resources or through external assistance. Within domestic resources a nation's saving and investment propensities play a key role in reaching targeted economic growth. Economic history suggests that countries that were able to accumulate high levels of domestic investment largely financed by domestic saving achieved faster rate of economic growth and development. The magnitude of economic growth of any economy is mainly determined by the behavior of income, consumption, saving and investment. In Indian economy growth has been financed predominantly by domestic savings, the volume of investment is directly related to the rate of savings. Over the decades, the secular uptrend witnessed in domestic growth is clearly associated with the consistent trends of increasing domestic savings and investment. Since the attainment of independence, the major objective of the economic policy has been the promotion of savings and capital formation as they are considered the key factors to fasten growth. India is one of the high saving economies and a major part of resources needed for capital accumulation is channelized through domestic saving.

India has a positive long term growth perspective as the economy has sound saving and investment rates, share of young population is high and the economy's integration with the global economy is becoming more strengthened. A review of the performance of the Indian economy suggests that there is a quantum jump in the real GDP growth rate in the post-reform period. The behaviour of the savings rate and economic growth in India during the post-reform period seems to suggest that the high growth phase is associated with higher order of increase in domestic savings.

Saving is the residual income after meeting consumption needs. The total investible resources available at any time in a country are made up of domestic savings and external resources Mankiw (2008). The new growth theories of Lucas (1988) and Barro (1990) emphasize the importance of both physical and human capital in achieving long run growth.

Savings of an economy comprises of public sector and private sector savings and within the private sector the two main parts are the household sector savings and private corporate savings. Among the major institutional sectors that generate savings, Household sector holds the prominent position over the other sectors namely Private corporate sector that holds the second position and then the Public sector. Households and individual investors supply a pool of capital that creates liquidity in the market and make it dynamic. It also paves light on how capital formation and growth takes place. Nature and rate of savings and investment are major determinants related to it. At the macroeconomic level household savings drive growth by enabling banks to lend to business and by financing directly investment in companies.

Investment is a part of overall financial planning. It is the process of sacrificing present consumption for future gains. Investment is a planned decision to put money in financial assets with a risk return trade off. It is an act of investing the saved money into various financial products with a view to earn better profits. People with savings are better able to weather economic shocks. In Indian Economy household sector contributes a lion share of total savings as such the saving behavior of the household sector is vital in the determination of the economy's overall saving and investment levels. Investment in the financial asset has been increasing among the households. Over the past decades the common man's interest in various investment avenues and stock markets has grown considerably. Improvements in financial inclusion and financial literacy also have brought positive changes in household saving and investment. Kerala's economy also exhibits high rate of savings and new avenues of investments are also seen. For enhancing welfare of households sound saving and investment activities are needed. In Kerala increase in financial literacy influence households in their financial decision making. Due to increasing financial literacy, the people in Kerala prefer more savings and investment which will further enhance personal financial well being, improves the standard of living which will further create a path for economic growth and economic development.

### **1.1 Significance of the study**

Households saving and investment plays an important role in capital formation and economic growth. Households plan for the future and the present by making saving and investment decisions. A household portfolio is a combination of different investment assets mixed and matched for the purpose of achieving investment goal. The financial success of an

individual is related to proper financial planning and this depends on proper allocation of funds in saving and investment channels. Saving and investment are possible only when an individual put a margin between income and expenditure. As the household sector is the predominant sector in pooling savings, households saving and investment behavior plays a crucial role in the economy's growth process. Hence the study of volume of savings, preference of assets, investment channels and determinants related to household saving and investment are of at most importance.

### **1.3 Research gap**

Through the literature survey it is observed that majority of the studies focus on the relation between saving and economic growth process and on the general aspects of saving and investment of households. None of them specifically analyses by taking together the various dimensions of households asset portfolio, preference pattern, awareness and perception of households towards saving and investment especially giving focus on urban population. As such this study fills the research gap through a detailed analysis of allocation of resources within urban household, specifically focusing on asset portfolio, preference toward various saving and investment avenues, awareness level in relation to different financial instruments and the major determinants of saving behaviour of urban households in Kerala.

### **1.4 Statement of the problem**

India is one of the fastest growing economies and is the fifth largest in the world by nominal GDP (World Bank 2019). Household sector contributes about two- third of the total domestic savings in India and since the capital formation is created through the transformation of savings to investment, savings as well as investment plays an important role in the growth process of the economy. The decision to save and invest, allocation of resources, awareness and perception of households are very deceive in the overall financial platform. The study has been undertaken to analyze the saving and investment pattern of urban households in Kerala. Since Kerala occupies the first position in Literacy rate and has high foreign remittances, the Per Capita Income level of people is high which results in high rate of savings. Savings take place in the form of financial assets and physical assets. Study helps in understanding the various financial saving instruments used by the household and to know the behavior of household as investors in various financial instruments. In urban areas

there is more financial inclusion and exposure and accessibility to financial institutions are also high. The saving activity of households are affected by several factors such as income level, education, age, occupational status, marital status, purpose of saving, awareness level etc which influences the saving behavior. As such the study intends to cover saving trend in Indian economy, households asset portfolio pattern, investment preference, awareness of financial instruments across the above stated factors and major determinants of saving of urban households in Kerala. Hence this study is proposed with the following objectives.

### **1.5 Objectives of the study**

1. To examine the trend of saving and investment in Indian Economy during the period 1951-2017.
2. To assess the saving pattern and investment preferences of urban households in Kerala.
3. To examine the level of awareness of the households towards various financial and physical assets.
4. To analyse the determinants of savings of the urban households.

### **1.6 Hypotheses**

The following are the hypotheses of the present study which gives special focus on the objectives.

- 1 Saving and investment exhibit a positive and increasing trend in Indian economy.
- 2 Households hold diversified asset portfolio with more preference towards assets with low risk.
- 3 Households are aware about the financial and physical instruments.
- 4 The determinants have a significant influence on household savings.

### **1.7 Methodology**

#### **Data source**

The study is both analytical and descriptive and relies on both primary and secondary data. Secondary data has been collected from various sources like -

- Handbook of Statistics on Indian Economy

- National Statistics Accounts
- Economic Survey published by Ministry of Finance
- World Development Indicator, published by the World Bank
- RBI Annual Reports of various years
- World Bank reports
- NCAER and NSSO survey reports
- Economic review of Kerala
- State Level Bankers Committee, Kerala reports.

Besides these various other published reports, books, working papers, websites etc has been used for the study.

To examine the trends of saving and investment in Indian economy secondary data have been used for the period 1951-2017. The secondary data have been analysed using CAGR, decadal growth rate and year to year growth rate.

The primary data have been collected through a structured schedule. The schedule was designed to capture all the necessary variables as per the requirement of the objectives of the research work and it is pre-tested by means of pilot study. The study focuses on the saving and investment behavior of urban households in Kerala.

The urban sector of Kerala consists of 6 municipal corporations and 87 municipalities. The primary data relating to the research work are collected through the pre-tested structured interview schedule from 360 urban households. Systematic random sampling method has been used for the study. A sample size of sixty has been collected from each of the six municipal corporations of Kerala - Thiruvananthapuram, Kollam, Kochi, Thrissur, Kozhikode and Kannur. Thiruvananthapuram, Kochi and Kozhikode are the three municipal corporations with over 58 per cent of urban population.

### **Methods used**

For the purpose of analysis of primary data suitable statistical tools are employed. Descriptive statistics such as frequencies, cross tabulation, mean, median, percentage distribution are used to analyse objectives pertaining to asset portfolio and saving pattern. To

assess the level of awareness about various financial and physical instruments statistical indices based on Likert methodology is used. This tool helps to quantify response or opinion based items. For evaluating the level of responses a maximum score of 4 was given to best i.e. with high level of awareness, followed by 3, 2, 1 to low level of awareness. For no opinion or neutral responses the score assigned was zero. The level of awareness is analyzed by using the statistical index constructed. The index score ranges from one to hundred and the household awareness about the instrument is high with index scores ranging from 66.66-100 ,moderate for index scores ranging from 33.33-66.66 and low for scores ranging from 0-33.33. On the basis of the index value the instruments can be ranked accordingly. A multiple regression model has been employed to explain the determinants of savings.

The model can be stated as

$$S = \alpha + \beta_1 Y + \beta_2 ED + \beta_3 DE + \beta_4 FS + \beta_5 HO + \beta_6 MS + U_i$$

Where,

S - is the amount of savings

Y - indicates household income

ED - indicates the level of education

DE - Number of dependents

FS - indicates the family size

HO - indicates household ownership (1=Owned; 0=Otherwise)

MS - indicates marital status (1=Married; 0=Otherwise)

$\alpha$  - is the intercept term

$\beta_1, \dots, \beta_6$  are coefficients and

$U_i$  - error term

The above stated model has been used to assess the relationship between savings and the major factors related to it.

### **1.8 Limitations of the study**

As in any other study, the present study is also not free from limitations. The study is primarily concerned with the income, saving and investment variables. While in the process of data collection, it was seen that the information provided by the respondents is not so accurate and there has been a tendency to provide an under estimation of their saving, income

and investment details on account of various apprehensions regarding the use of information. Also there are chances of sampling and non-sampling errors in drawing inferences, but at most care has been taken to minimize these errors.

## **1.9 Chapter Scheme**

The study comprises of seven chapters. The first chapter outlines the design of the study and includes introduction, significance of the study, research gap, statement of the problem, objectives, hypothesis, methodology, limitations of the study and chapter scheme. The second chapter provides theoretical background and a comprehensive literature review. The third chapter examines the trends and composition of savings and investment in Indian Economy. The fourth chapter examines the socio demographic and economic profiles of urban households in Kerala. Fifth chapter analyses the asset portfolio, investment preferences, objectives related to saving, time horizon of investment, sectoral preferences and the level of awareness related to various instruments. Sixth chapter provides the analysis of determinants of saving behavior of urban households. Finally the seventh chapter presents the summary, major findings, conclusions drawn and policy implications.