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Role of Financial Literacy in Reducing Socio-Economic Inequality with Special Reference to Delhi-NCR

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Abstract: Socio-economic inequality remains a most pressing challenges in India, affecting income distribution, access to resources, and employable opportunities in the society. Financial literacy is an emerging tool for empowering individuals which helps in managing their financial decision as well as improve their economic well-being. This research paper explores the basic financial knowledge which can be helpful in reducing socio-economic inequality in Delhi-NCR. On the basis of the finding of the study, can be concludes that financial literacy has a significant impact in reducing socio-economic inequality by enhancing financial inclusion, promoting asset creation, and strengthening economic resilience. Strengthening financial education initiatives at the grassroots level can therefore contribute meaningfully to inclusive growth in India.

Keywords: Financial Literacy, Socio-Economic Inequality, Financial Inclusion.

1. Introduction

There is significant growth in economic activities in last five decades in India, while the lay man far from the benefits and not able to avail the benefit of the economic growth, means have not been distributed evenly across society and have socio-economic differences. Large sections of people continue to face income inequality, limited exposer to basic financial services, and economic insecurity. Socio-economic inequality manifests in disparities related to income, education, employment opportunities, and access to banking or financial resources. One of the vital factors in contributing to this inequality is the dearth of financial knowledge among individuals, particularly those belonging to low-income and marginalized groups.

Financial literacy means individuals skill to understand basic financial terms and concepts, and apply same knowledge in managing personal finances. It includes awareness of saving, budgeting, interest rates, inflation, insurance, credit, and investment options. Due to lack of financial knowledge, individuals fails in making of sound financial decisions, rely on informal and high-cost credit sources, and fail to plan for future contingencies. This financial vulnerability further reinforces socio-economic inequality.

In India, majority of the population works or engages in the private and informal sector and have lack of access to social security benefits. For such individuals, financial awareness is essential for ensuring economic opportunities in economy, which brings stability and upward mobility. While access to banking services has increased in recent years, effective utilization of these services depends largely on financial awareness and skills. Without adequate financial literacy, access alone cannot lead to meaningful economic empowerment.

2. Literature review

Lusardi and Mitchell (2007, 2014) are widely regarded as pioneers in financial awareness in research. Their empirical studies reveal low level of awareness of financial products among individuals across different countries, irrespective of income, social status and education levels. The authors found that many of individuals lack of understanding of basic financial terms such as simple and compound interest, inflation, and risk diversification. Their research establishes a strong and positive correlation between financial literacy and their financial decisions such as retirement planning, saving, and investment decisions. They also argue and profound that financial literacy is essential for enhancing individual financial security and reducing economic vulnerability. Atkinson and Messy (2012) has significant contribution in understanding of concept of financial literacy by defining it as a combination of financial awareness, attitudes, knowledge, and behaviour. Their OECD-based study focuses and emphasizes that financial literacy is not only limited to awareness of financial terms and products but also includes the decision making to apply financial knowledge in practical situations. They observe that individual's financially literacy is more likely to budget effectively, save regularly, and make informed borrowing decisions, thereby improving their overall financial well-being. Huston (2010) critically examines the conceptual and measurement challenges associated with financial literacy research. She highlights the dearth of consistency in defining and measuring financial literacy across studies, which leads to variation in research findings. Huston distinguishes financial literacy from financial education, describing literacy as an

outcome of education. She stresses that there is need of standardized tools to measure accurately and assess the impact of financial literacy on financial decision.

Van Rooij, Lusardi, and Alessie (2011) focuses on the relations between financial market and financial decision and their market participation. The authors found and indicate that individuals with more financial literacy are able to take sound financial decision and more likely to take better decision in investment, saving and explore various complex financial products. The study concludes that inadequate financial knowledge acts as a major challenge in investment participation and wealth accumulation, and reinforcing the vitals of financial literacy in promoting financial inclusion.

Xiao and Porto (2017) examine the role of financial awareness and literacy in shaping financial satisfaction. Their study found that financial knowledge positively affects financial decisions, which in turn enhance satisfaction level in financial decision and approach. However, they note that behavioural and psychological factors influence how financial knowledge is translated into actual financial decisions.

3. Objective of the Study

- To examine the role of financial literacy in reducing socio-economic inequality in India using primary data.

4. Research Methodology

4.1 Research Design: This is a descriptive and analytical research study. It relies entirely on primary data collected from respondents to understand the correlation between the financial awareness and socio-economic inequality.

4.2 Source of Data: Only primary data were used for the purpose of this study.

4.3 Sample Size: The sample size of this study is 200 respondents.

4.4 Sampling Technique: Due to time and accessibility constraints, convenience sampling method was adopted for study. Efforts were made to include respondents from all income group, educational backgrounds, and occupations to ensure diversity.

4.5 Tool for Data Collection: A structured questionnaire was draft to collect data. The questionnaire included questions related to:

- Demographic profile of respondents
- Awareness of basic financial concepts
- Saving and investment perceptions
- exposer of formal financial avenues
- Perceived impact of financial awareness on economic well-being

5. Data Analysis and Discussion

The collected primary data were analyzed using various methods like percentage analysis and presented in the form of tables and interpretation thereafter.

1. Profile of Respondents

Table 1: Gender-wise Distribution of Respondents

Gender	Number of Respondents	Percentage
Male	110	55%
Female	90	45%
Total	200	100%

Source: Primary data

The table no 1, shows a fairly balanced representation of 55 % male and 45 % female respondents, enabling gender-based insights into financial literacy levels.

Table 2: Educational Qualification of Respondents

Education Level	Respondents	Percentage
Up to Secondary	60	30%
Graduate	90	45%
Postgraduate & Above	50	25%
Total	200	100%

Source: Primary data

The table no 2, indicate that a majority of respondents are graduate and post-graduate they constitute 70 % of total respondent and rest of the 30 % are up to secondary level, which is useful in analyzing the relationship between their academic education and financial awareness.

Table 3: Monthly Income of Respondents

Income Level (₹)	Respondents	Percentage
Below 15,000	70	35%
15,000–30,000	80	40%
Above 30,000	50	25%
Total	200	100%

Source: Primary data

The table no.3, shows representation from different income groups, people who earns up to Rs 15,000 per month are 35%, while rest of 65% earns more than Rs 15,000 per month, if we further classified them only 25% people earns more than Rs 30,000 per month. This is also shows the positive correlation between education and monthly income.

2. Analysis of Financial Literacy Levels

Table 4: Awareness of Basic Financial Concepts

Financial Concept	Aware	Not Aware
Savings	170 (85%)	30 (15%)
Interest Rate	140 (70%)	60 (30%)
Inflation	110 (55%)	90 (45%)
Insurance	130 (65%)	70 (35%)
Investment Options	95 (47.5%)	105 (52.5%)

Source: Primary data

The table no. 4, reveals that while awareness of basic concepts like savings is high, that is 85 % people are aware of concept of saving, 70% of them also understand the interest rate in banks deposit, that is saving interest rate as well as fixed deposit interest rate, 55% of

them also aware of inflation rate and its impact on value of money, 65% of them also knows the concept on insurance and how it is working to protect financial risk towards any miss happening, 47% of people also knows the various investment avenues in market. The data also shows that 70% of respondent are graduate and above also have financial literacy means there are positive correlation between them. understanding of inflation and investment options is relatively low, particularly among lower-income respondents.

3. Financial Behavior of Respondents

Table 5: Saving Habits of Respondents

Saving Habit	Respondents	Percentage
Regular Saving	95	47.5%
Occasional Saving	65	32.5%
No Saving	40	20%
Total	200	100%

Source: Primary data

The table no. 5, shows that 95% of those respondents were save regularly who has higher financial literacy, 65% of them have save occasionally while 40% of them have no saving may be due less financial awareness low income group.

Table 6: Use of Formal Financial Services

Service Used	Yes	No
Bank Account	180 (90%)	20 (10%)
Insurance	120 (60%)	80 (40%)
Formal Credit	95 (47.5%)	105 (52.5%)

Source: Primary data

The table no.6, shows 90% people have bank account ownership but 60% of them relatively lower usage of insurance and, 47.5% have formal credit access. The data also indicates that 20% of the people still do not have a bank accounts that means they are marginalized away from financial inclusion.

4. Findings of the Study

- I. The 70% of respondents are graduate and post-graduate and 85% of total of them are financial literate shows that there is positive correlation between them.
- II. There is positive correlation between those, who have financial literacy and better saving and investment behavior in the respondents. 95% people have regular saving habit.
- III. Financially literate respondents show that 47.5% of them have access to formal credit system and there are less dependent on informal credit.
- IV. Financial literacy enhances economic confidence and stability. While in dearth of financial knowledge leads to socio-economic inequality.

5. Suggestions

- I. Financial education related to basic financial awareness and various financial saving avenues must be introduce in the academic programs.
- II. Community-based financial literacy programmes should be strengthened.
- III. Special focus should be given to low-income and less-educated groups.
- IV. Practical financial training should be emphasized over theoretical knowledge.

6. Conclusion

The study concludes that basic financial literacy has a significant impact on reducing socio-economic inequality in India. Evidence from primary data clearly demonstrates that individuals who has financial awareness exhibit improved financial behavior, greater economic stability, and enhanced participation in formal financial systems. In contrast, low financial literacy perpetuates vulnerability and inequality. Strengthening financial literacy initiatives at the grassroots level can therefore serve as meaningful strategy in reducing socio-economic equality and promotes inclusive growth and social equity in India.

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