

FINANCIAL LITERACY AND STOCK MARKET

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Individuals became progressively active in financial markets, and market participation has been attended or perhaps promoted by the arrival of latest financial merchandise and services. However, a number of these merchandise square measure complicated and troublesome to understand, particularly for financially unsophisticated investors. At constant time, market easement associate degree structural reforms in social insurance and pensions have caused an on-going shift in call power far away from the government and employers toward non-public people. Thus, people need to assume additional responsibility for his or her own monetary well-being Agnew and Szykman (2005). Square measure people well-equipped to form monetary decisions? Do they possess adequate financial acquirement and information? There has been very little analysis on this subject and also the few existing studies indicate that monetary illiteracy is widespread and people lack knowledge of even the foremost basic economic principles, National Council on Economic Education (NCEE). At constant time, there square measure considerations that households don't seem to be saving enough for retirement, square measure accumulating excessive debt, and don't seem to be taking advantage of economic innovation. the present studies have conjointly shown that people who don't seem to be financially literate square measure less probably to set up for retirement and to accumulate wealth, and square measure additional probably to require up high-interest mortgages.

To live monetary acquirement and assess its relationship with monetary higher cognitive process, we've devised two special modules for the DNB menage Survey (DHS), a panel knowledge set covering a sample distribution of the Dutch population and providing data on savings and portfolio alternative. We've designed an intensive list of queries geared toward activity and completely differentiating among different levels of acquirement and monetary sophistication. These queries are coupled to a fashionable set of knowledge on demographic characteristics and wealth holdings. Our knowledge show that the bulk of households show basic monetary information and have some grasp of ideas like interest combining, inflation, and also the continuance of cash Agarwal et al. (2007). However, only a few transcend these basic concepts; several households don't understand the distinction between bonds and stocks, the connection between bond costs and interest rates, and also the basics of risk diversification. Most significant, we discover that monetary acquirement affects financial decision-making: Those with low acquirement square measure additional probably to accept family and friends as their main supply of economic recommendation and square measure less probably to take a position in stocks.

First, we have a tendency to develop two indices of economic acquirement and information, which permit North American country to completely differentiate among different three levels of economic sophistication. Adding this data to existing knowledge sets will well enhance the studies on saving and portfolio alternative. Second, we have a tendency to contribute to the methodology of activity financial information. There's tons of noise within the responses to monetary acquirement queries and that we show that the choice of words of the queries is critically necessary for activity financial information. Third, we offer a contribution toward finding the alleged "stock-holding" puzzle, i.e., the very fact that a lot of households don't hold stocks Alessie et al. (2002). we have a tendency to show that a lot of families draw back from the exchange as a result of they need very little information of stocks, the operating of the exchange, and plus valuation.

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