



Impact of Income Level on Investment Behaviour of Individual Investors in India.

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Abstract:-

Investment behaviour has emerged as a critical area of study in modern financial research, especially in developing economies like India where financial inclusion is rapidly expanding. This paper examines the relationship between income level and investment behaviour among individual investors. It explores how income influences investment preferences, risk tolerance, and decision-making patterns.

The study is based on primary data collected through structured questionnaires from 100 respondents. Analytical tools such as percentage analysis and chi-square tests are used to evaluate the relationship between income and investment choices. The findings reveal that income level significantly affects investment allocation, diversification strategies, and risk appetite. Higher-income individuals tend to invest in market-linked instruments, while lower-income groups prefer safer options.

The study highlights the importance of financial literacy and structured financial planning in improving investment decisions. It also suggests that policy interventions and awareness programs can help individuals make more informed financial choices.

Keywords:

Investment Behaviour, Income Level, Risk Tolerance, Financial Literacy, Behavioural Finance, India



1. Introduction:-

Investment plays a vital role in economic development by mobilizing savings and allocating them into productive avenues. In recent years, India has witnessed a substantial increase in retail investor participation due to technological advancements, digital platforms, and improved financial awareness. However, investment decisions are not solely based on logical analysis; they are influenced by several demographic and psychological factors.

Among these factors, income level is one of the most significant determinants of investment behaviour. Individuals with higher income generally have greater financial capacity, allowing them to diversify their investments and take calculated risks. On the other hand, individuals with lower income often prioritize capital preservation and liquidity.

Understanding the impact of income level on investment behaviour is essential for policymakers, financial institutions, and advisors. It helps in designing suitable financial products and strategies tailored to different income groups.

2. Objectives of the Study:-

The primary objectives of this research are:

- To examine the relationship between income level and investment decisions
- To analyze how income influences risk tolerance among investors
- To identify preferred investment avenues across different income groups
- To study the role of financial literacy in shaping investment behavior
- To evaluate behavioral factors affecting investment choices

3. Review of Literature:-

Traditional financial theories assume that investors behave rationally and aim to maximize returns while minimizing risk. However, behavioural finance challenges this assumption by incorporating psychological aspects into financial decision-making.

Several studies have highlighted the role of biases such as overconfidence, loss aversion, and herd behaviour in influencing investment decisions. Loss aversion, for instance, causes investors to fear losses more than they value gains, leading to conservative investment choices.

Research in the Indian context indicates that demographic variables such as age, education, and income significantly affect investment patterns. Higher-income individuals are more likely to invest in equities, mutual funds, and other market-linked instruments. In contrast, lower-income groups prefer traditional avenues like fixed deposits, gold, and savings accounts.

Financial literacy has also been identified as a key factor influencing investment behaviour. Individuals with better financial knowledge are more likely to diversify their portfolios and make informed decisions.



4. Research Methodology:-

4.1 Research Design:

The study adopts a descriptive and quantitative research design to analyze investment behaviour.

4.2 Data Collection:

- Primary Data: Collected through a structured questionnaire distributed among respondents
- Secondary Data: Sourced from reports, journals, and publications related to investment behavior

4.3 Sample Size:

The study is based on a sample of 100 respondents.

4.4 Sampling Technique:

Convenience sampling method was used due to accessibility and time constraints.

4.5 Tools for Analysis:

- Percentage analysis
- Chi-square test
- Graphical representation

4.6 Limitations of the Study:

- Limited sample size
- Restricted to a specific geographic area
- Responses may include personal bias

5. Data Analysis and Interpretation:-

5.1 Demographic Profile:

The majority of respondents belong to the age group of 18–35 years, indicating a strong representation of young investors. Most participants fall within the middle-income category.



5.2 Investment Preferences:

The analysis shows that equity and mutual funds are becoming increasingly popular among investors. However, traditional investment options such as fixed deposits and gold continue to hold significance, especially among conservative investors.

5.3 Risk Tolerance:

Risk tolerance varies significantly across income levels. Higher-income individuals exhibit a greater willingness to take risks due to financial stability. In contrast, lower-income individuals prefer low-risk investments to ensure capital safety.

5.4 Influence of Income Level:

Income level has a direct impact on investment decisions. Individuals with higher income tend to diversify their portfolios across multiple asset classes, including equities, mutual funds, and real estate. On the other hand, lower-income groups focus on secure and liquid investments.

5.5 Behavioral Factors:

Behavioural influences such as peer pressure, media exposure, and emotional decision-making play a crucial role in shaping investment behaviour. Many investors rely on advice from friends and family rather than professional guidance.

6. Hypothesis Testing:-

Hypothesis Formulation:

- H_0 (Null Hypothesis): Income level has no significant impact on investment behavior
- H_1 (Alternative Hypothesis): Income level significantly affects investment behavior

CHI – SQUARE TEST

Table 1 — Financial Literacy Level and Awareness Responses of Young Investors

#	Financial Literacy Level	Observed (O)	Expected (E)	$O - E$	$(O - E)^2$	$(O - E)^2 / E$
1	Very High	12	20	-12	144	7.20
#	Financial Literacy Level	Observed (O)	Expected (E)	$O - E$	$(O - E)^2$	$(O - E)^2 / E$



2	High	28	20	8	64	3.20
3	Moderate	34	20	14	196	9.80
4	Low	18	20	-2	4	0.20
5	Very Low	8	20	-12	144	7.20
TOTAL	TOTAL	100	100	—	—	27.60

• **Step 5: Decision Table**

Test	Chi-Square Calculated	Chi-Square Value	Tadf	Comparison	Final Decision
H1 Test	27.60	9.488	4	27.60 > 9.488	REJECT H₀ (Accept H₁)

Table 2 — Investment Behavior and Preferences of Young Investors across Financial Instruments

#	Financial Instrument	Observed (O)	Expected (E)	O - E	(O - E) ²	(O - E) ² / E
1	Stock Market	32	20	12	144	7.20
2	Mutual Funds	27	20	7	49	2.45
3	Fixed Deposits	15	20	-5	25	1.25
4	Crypto currency	18	20	-2	4	0.20
#	Financial Instrument	Observed (O)	Expected (E)	O - E	(O - E) ²	(O - E) ² / E
5	Real Estate & Gold	8	20	-12	144	7.20
TOTAL	TOTAL	100	100	—	—	18.30



Step 5: Decision Table

Test	Chi-Square Calculated	Chi-Square Value	Tadf	Comparison	Final Decision
H2 Test	18.30	9.488	4	18.30 > 9.488	REJECT H₀ (Accept H ₁)

Table 3 — Impact of Financial Literacy on Investment Decisions of Young Investors

#	Response Level	Observed (O)	Expected (E)	O - E	(O - E) ² / E	
1	Strongly Agree	38	20	18	324	16.20
2	Agree	30	20	10	100	5.00
3	Neutral	16	20	-4	16	0.80
4	Disagree	10	20	-10	100	5.00
5	Strongly Disagree	6	20	-14	196	9.80
TOTAL	TOTAL	100	100	—	—	36.80

Step 5: Decision Table

Test	Chi-Square Calculated	Chi-Square Value	Tadf	Comparison	Final Decision
H3 Test	36.80	9.488	4	36.80 > 9.488	REJECT H₀ (Accept H ₁)



Table 4 — Relationship between Financial Literacy and Risk-Taking Ability of Young Investors

#	Risk Appetite Level	Observed (O)	Expected (E)	O - E	(O - E) ²	(O - E) ² / E
1	Very High	10	20	-10	100	5.00
2	High	25	20	5	25	1.25
3	Moderate	36	20	16	256	12.80
4	Low	20	20	0	0	0.00
5	Very Low	9	20	-11	121	6.05
TOTAL	TOTAL	100	100	—	—	25.10

Step 5: Decision Table

Test	Chi-Square Calculated	Chi-Square Value	Tadf	Comparison	Final Decision
H4 Test	25.10	9.488	4	25.10 > 9.488	REJECT H₀ (Accept H ₁)

5 — Factors Influencing Investment Decisions of Indian Investors

#	Influencing Factor	Observed (O)	Expected (E)	O - E	(O - E) ²	(O - E) ² / E
1	Market Trends	35	20	15	225	11.25
2	Financial News	28	20	8	64	3.20
3	Tax Benefits	22	20	2	4	0.20
4	Peer Influence	9	20	-11	121	6.05
5	Personal Research	6	20	-14	196	9.80
TOTAL	TOTAL	100	100	—	—	30.50



Step 5: Decision Table

Test	Chi-Square Calculated	Chi-Square Value	Tadf	Comparison	Final Decision
H5 Test	30.50	9.488	4	30.50 > 9.488	REJECT H₀ (Accept H₁)

Table 6 — Impact of Income Level on Risk Tolerance and Investment Choices of Indian Investors

#	Income-Pattern	Investment	Observed (O)	Expected (E)	O - E	(O - E) ²	(O - E) ² / E
1	High Income Prefers Equities		38	20	18	324	16.20
2	High Income Prefers FDs		7	20	-13	169	8.45
3	Low Income Prefers FDs		30	20	10	100	5.00
4	Low Income Prefers Equities		11	20	-9	81	4.05
5	Mixed / No Preference	Cl	14	20	-6	36	1.80
TOTAL	TOTAL		100	100	—	—	35.50



Step 5: Decision Table

Test	Chi-Square Calculated	Chi-Square Value	Tad	df	Comparison	Final Decision
H6 Test	35.50	9.488		4	35.50 > 9.488	REJECT H₀ (Accept H ₁)

Overall Summary of Hypothesis Testing Results

Hyp.	Objective	χ^2 Calculated	χ^2 Critical	df	Decision
H1	Financial Literacy Level & Awareness	27.60	9.488	4	Reject H₀
H2	Investment Behavior & Preferences	18.30	9.488	4	Reject H₀
H3	Impact of Financial Literacy Decisions	36.80	9.488	4	Reject H₀
H4	Financial Literacy & Risk-Taking Ability	25.10	9.488	4	Reject H₀
H5	Factors Influencing Investment Decisions	30.50	9.488	4	Reject H₀
H6	Income Level, Risk Tolerance Investment Choices	35.50	9.488	4	Reject H₀



Analysis:

The chi-square test was applied to evaluate the relationship between income level and investment preferences.

Result:

The calculated value exceeded the critical value, leading to the rejection of the null hypothesis.

Conclusion:

There is a statistically significant relationship between income level and investment behaviour.

7. Findings of the Study:-

- Income level plays a crucial role in determining investment decisions
- Higher-income individuals prefer diversified and high-return investments
- Lower-income groups prioritize safety and liquidity
- Financial literacy positively influences investment behavior
- Behavioral biases often lead to irrational investment decisions
- Many investors lack proper financial planning and goal setting

8. Conclusion:-

The study concludes that income level is a key determinant of investment behaviour among individual investors in India. While higher-income individuals demonstrate a greater inclination toward risk-taking and diversification, lower-income groups tend to adopt a conservative approach.

However, income alone does not fully explain investment behaviour. Factors such as financial literacy, awareness, and psychological biases also play a significant role. The increasing participation of retail investors in financial markets highlights the need for better education and guidance.

To ensure sustainable financial growth, it is essential to promote financial literacy and encourage disciplined investment practices. This will help individuals make informed decisions and achieve long-term financial stability.

9. Suggestions and Recommendations:-

- Introduce financial education programs at school and college levels
- Encourage goal-based investment planning
- Provide easy access to financial advisory services
- Promote awareness about diversified investment portfolios
- Develop customized financial products for different income groups
- Increase transparency and reliability of financial information



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