The Role of the Actual vs. Perceived Financial Literacy Gap in Decision-Making among Employed Individuals in Rajkot

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Abstract: Financial literacy has emerged as a key life skill that prominently influences people's capability to make informed and responsible financial decisions. Given the growing sophistication of financial systems and products, the relationships between financial knowledge and behavior are particularly important to individuals and collective economic well-being. This study is a focused attempt at investigating the role of financial literacy in financial decision-making among income-earning individuals in Rajkot.

This paper focuses on those who actively create income for themselves through employment, business, or self-employment. It probes into their perception of fundamental financial concepts: budgeting, saving, investing, management of credit and retirement planning, and explores how the knowledge translates into actual financial behavior. Financial literacy is associated not only with personal economic outcomes but also with broader financial resilience and stability.

This study will, therefore, draw on survey-based data collection from a heterogeneous sample of respondents with different socio-economic backgrounds. Key demographic variables include age, gender, education level, marital status, household structure, employment type, income level, and locality. Preliminary results indicate that a higher financially literate individual tends to exhibit sound financial behaviour, which includes saving in a disciplined manner, borrowing responsibly, and conducting future-oriented financial planning. Results underline the need for targeted programs on financial education, as existing knowledge gaps call for immediate attention.

The research therefore emphasizes financial literacy as a necessary enabler in achieving good financial decision-making and long-term financial security among income-earning people by fostering informed choices, responsible money management, and improved financial well-being. It further stresses how improved financial literacy might position individuals to plan strategically, minimize risks, and realize better financial stability at both personal and professional levels.

Key words: Financial Literacy; Financial Decision-Making; Actual vs. Perceived Literacy; Employed Individuals; Financial Behaviour

I. INTRODUCTION

"Financial literacy is an important part of avoiding financial mistakes and planning for a strong, secure financial future"

In the last 10 years, there have been enormous structural and economic changes in the Indian economy which has occurred in its financial sector. A strong financial architecture has become a necessity for the nation as a result of continuous and significant economic growth in all areas. This is only possible in an environment where financial literacy of both households and the users of financial products is adequate. Scanning the environment, financial literacy has been elevated as tools to reinforce sound financial systems and shield consumers against financial risks across the world's economy.

In India, financial literacy is now widely recognized as an important life skill, acknowledged by policymakers, regulators, and financial institutions. With the proliferation of financial products, digital banking platforms, credit instruments, and diverse investment avenues, individuals must navigate far more complex financial choices than in the past. Investors today have access to a wide range of savings, credit, and investment products offered by different institutions in multiple formats. Consequently, financial education plays a crucial role in equipping individuals with the conceptual knowledge and skills required to evaluate and select suitable financial options. Beyond merely choosing the best products, individuals must also assess the credibility of providers and align choices with their financial needs and risk tolerance.

In emerging economies like India, these challenges are amplified, as many individuals regularly engage in financial activities—such as budgeting, saving, borrowing, and investing—without sufficient formal financial education. The mismatch between the availability of diverse financial instruments and the public's ability to understand and use them responsibly highlights the importance of assessing financial literacy levels. Although several initiatives aim to promote financial awareness, evidence suggests that financial literacy remains uneven across demographic groups, influencing individuals' ability to plan for long-term financial security, manage credit, and make informed investment decisions.

Against this backdrop, the present study examines the influence of financial literacy on financial decision-making among income-earning individuals in Rajkot, including those who are employed, self-employed, or engaged in business activities. By evaluating their understanding of key financial concepts and analysing how such knowledge translates into real financial behaviour, the study seeks to contribute empirical insights that can inform policymakers, financial educators, and institutions in designing targeted interventions to enhance financial capability and promote financial stability.

Significance of the Study

The findings of this study will contribute to a deeper understanding of how financial literacy influences financial decision-making among income-earning individuals. By highlighting the relationship between financial knowledge and various dimensions of financial behaviour—including saving, budgeting, credit management, and investment practices—the study underscores the importance of financial education in enhancing overall financial well-being. These insights hold significant value for policymakers, educators, and financial advisors who design interventions aimed at strengthening financial capability and promoting responsible financial behaviour.

Financial literacy initiatives play a crucial role in equipping individuals with the knowledge required to make informed and rational financial decisions. Higher levels of financial literacy are associated with improved financial planning, better management of financial risks, and more effective allocation of resources. The results of this study will contribute to the growing body of literature on financial literacy and financial behaviour and provide a foundation for future research and policy development in the Indian context.

Financial Literacy as a Predictor of Responsible Financial Behaviour

Financial literacy has been widely recognized as a fundamental determinant of responsible financial behaviour among employed individuals. Studies show that employees with higher levels of financial knowledge demonstrate more effective budgeting, saving, and planning behaviours (Lusardi & Mitchell, 2017). Financial literacy equips individuals with the ability to evaluate financial alternatives, understand the costs of borrowing, and avoid high-risk decisions (Klapper et al., 2019). More recent evidence suggests that financial knowledge enhances long-term preparedness, including retirement planning and emergency fund management (Potrich et al., 2020). Collectively, these findings position financial literacy as a critical factor influencing everyday financial actions and long-term financial well-being.

Financial Literacy and Investment Decision-Making

A substantial body of literature highlights the strong association between financial literacy and investment decision-making. Research consistently finds that financially literate employees are more confident in selecting investment instruments, understanding risk–return trade-offs, and participating in diversified investment portfolios (van Rooij et al., 2016). Studies conducted during 2020–2025 emphasize that financial literacy reduces susceptibility to behavioural biases such as herding behaviour, framing effects, and loss aversion (Aren & Aydemir, 2020; Kumar & Goyal, 2016). Additionally, digital financial literacy has emerged as a key driver of investment decision-making in online platforms and mutual fund markets (Prasad et al., 2022). Overall, the literature indicates that financial literacy significantly enhances investment decision quality and confidence.

Financial Literacy as a Buffer Against Financial Vulnerability

Another important theme in the literature concerns the protective role of financial literacy in mitigating financial vulnerability. Employees with higher financial knowledge are less likely to fall into debt traps, misuse credit, or adopt harmful borrowing practices (Huston, 2015). Studies conducted after 2018 demonstrate that financial literacy promotes financial resilience by improving employees' preparedness for emergencies and ability to withstand economic shocks (Hasler & Lusardi, 2019). Evidence from post-pandemic research shows that financially literate individuals experienced lower financial stress and adapted more effectively to income disruptions (OECD, 2021). Thus, financial literacy functions as a stabilizing mechanism that reduces vulnerability and enhances financial security.

Mediating Role of Financial Attitudes and Confidence

Recent literature highlights psychological and behavioural mediators that strengthen the link between financial literacy and financial decision-making. Several studies show that financial literacy enhances financial self-efficacy, which in turn improves decision-making quality (Farrell et al., 2016). Financially knowledgeable individuals are better able to assess financial information, evaluate alternatives, and make goal-oriented decisions (Xiao & Porto, 2019). Researchers also note that positive financial attitudes—such as future orientation, responsible consumption, and risk awareness—mediate this relationship, leading to more rational financial behaviour (Chhatwani & Mishra, 2021). These findings suggest that financial literacy influences both cognitive understanding and behavioural expression.

Workplace Financial Education and Organisational Influence

Emerging research identifies the workplace as a significant platform for enhancing financial literacy among employed individuals. Studies between 2019 and 2025 indicate that employer-supported financial education programs, retirement planning workshops, and counselling significantly improve financial knowledge and behaviour (Collins & Urban, 2020). Employees participating in such programs demonstrate enhanced understanding of investment plans, insurance choices, and long-term saving strategies (Gutter & Copur, 2021). Moreover, workplace initiatives contribute to improved financial well-being, reduced financial stress, and higher organizational productivity (Kim & Garman, 2019). This theme underscores the practical value of structured financial education at the workplace.

Demographic Differences in Financial Literacy and Decision-Making

A considerable body of research addresses demographic variations in financial literacy and related decision-making. Studies consistently show that factors such as age, gender, education, and income significantly influence financial knowledge (OECD, 2016; Grohmann et al., 2018).

Women and younger employees often exhibit lower financial literacy levels, contributing to gaps in investment confidence and risk-taking behaviour (Bannier & Neubert, 2016). Recent studies also highlight a digital divide in financial literacy, where younger individuals possess higher digital familiarity but lower conceptual depth (Morgan & Trinh, 2020). These demographic trends demonstrate the importance of targeted financial training initiatives.

Digital Financial Literacy and Contemporary Decision-Making

With the rapid expansion of fintech and digital financial services, digital financial literacy has become a critical topic in recent literature. Researchers report that employees with strong digital financial skills are better able to navigate mobile banking, digital payments, and online investment platforms (UNCTAD, 2022). Digital literacy enables individuals to compare financial products effectively, avoid online fraud, and make more efficient financial decisions (Rahman & Gan, 2021). However, lack of digital skills has been linked to higher vulnerability to misinformation, fraud, and poor financial choices (OECD, 2021). The literature calls for integrating digital competencies into financial literacy programs to meet contemporary decision-making demands.

II. OBJECTIVES

1. To assess the level of financial literacy among employed individuals.

This objective measures how much financial knowledge employed individuals have. It is needed to establish a baseline before examining its effect on financial decisions.

2. To examine the influence of financial literacy on financial decision-making among employed individuals.

This objective studies whether financial literacy impacts how individuals make financial choices. It is included to see if better knowledge leads to better decisions.

The study employs a descriptive and analytical research design to assess financial literacy levels among employed individuals and examine the influence of financial literacy on their financial decision-making. The research focuses on individuals employed across various sectors, including public, private, and self-employed categories.

A sample of 60 employed individuals was targeted for the study. For the paired comparison of actual and perceived financial literacy, this sample size provides sufficient statistical power to detect medium or larger effect sizes at the 5% significance level. To address the possibility of incomplete or unusable responses, a total of 70 questionnaires were distributed, ensuring that at least 60 valid responses could be obtained for analysis.

Primary data were collected using a structured questionnaire consisting of four sections: demographic profile, actual financial literacy (knowledge-based items), perceived financial literacy (self-assessment scale), and financial decision-making statements. Actual financial literacy was measured through objective scoring of correct answers, while perceived literacy and financial decision-making were assessed using a 5-point Likert scale.

To ensure instrument quality, the questionnaire underwent preliminary review and pilot testing, and modifications were incorporated based on feedback. The collected data were analyzed using descriptive statistics (mean, standard deviation, frequency distribution) to assess financial literacy levels.

Paired sample t-test was used to compare actual and perceived financial literacy, while correlation and regression analysis were employed to examine the influence of financial literacy on financial decision-making. Data analysis was conducted using SPSS/Excel.

Analysis of Actual vs. Perceived Financial Literacy among Employed Individuals

H_0: There is no significant difference between actual financial literacy and perceived financial literacy among employed individuals.

H_1: There is a significant difference between actual financial literacy and perceived financial literacy among employed individuals.

Financial Literacy Measure	Mean	Standard Deviation	N
Actual Financial Literacy	3.10	0.98	60
Perceived Financial Literacy	3.85	0.82	60

Table 1: Descriptive Statistics for Actual and Perceived Financial Literacy

Statistical Measure	Value
Mean Difference	0.75
t-value	6.47
Degrees of Freedom	59
p-value	0.000
Effect Size (Cohen's d)	0.83 (Large)

Table 2: Paired-Sample t-Test Results (Actual v/s Perceived Financial Literacy)

The analysis yielded a clear and statistically significant difference between the actual and perceived levels of financial literacy among the employed. As illustrated in Table 1, the actual mean score for financial literacy was 3.10, whereas the mean score for perceived financial literacy was much higher at 3.85. A paired-sample t-test was conducted to determine whether this gap was statistically meaningful. The results ($t(59) = 6.47$, $p < 0.05$) confirmed that the difference between these two measures is significant. Furthermore, with Cohen's $d = 0.83$, the effect size is large, which means that people tend to overestimate their financial literacy in comparison with the real level of knowledge.

Overall, the findings have shown that despite employed persons believing in their financial literacy, the real understanding is relatively lower. This mismatch signifies that focused financial awareness and education programs are necessary to develop stronger actual financial competencies among the working population.

Analysis of the Influence of Financial Literacy on Financial Decision-Making among Employed Individuals

H_0: Financial literacy has no significant influence on the financial decision-making of employed individuals.
H_1: Financial literacy has a significant influence on the financial decision-making of employed individuals.

Variables	Correlation (r)	p-value
Actual Financial Literacy vs Financial Decision-Making	0.52	0.000

Table 3: Correlation between Actual Financial Literacy and Financial Decision-Making

Regression Measure	Value
R	0.52
R^2	0.27
F-value	21.85
P-value	0.000
Regression Coefficient (β)	0.45

Table 4: Regression Analysis

$R^2 = 0.27$ means 27% of the variation in financial decision-making is explained by financial literacy.
The results show that financial literacy significantly impacts the financial decisions of employed people. As presented in Table 4, the value of $r = 0.52$ ($p < 0.05$) presents a moderately strong positive correlation between actual financial literacy and financial decision-making. It substantiates that a higher level of financial knowledge promotes better and wiser financial decisions.
This relationship is further supported by the regression analysis. The model accounts for 27 percent of the variance in financial decision-making, $R^2 = 0.27$, and thus financial literacy is an important predictor thereof. The regression coefficient, $\beta = 0.45$, shows that increased financial literacy is positively related to improved financial decision-making scores. The overall model was statistically significant, $F = 21.85$, $p < 0.05$.
These findings emphasize that financial literacy has a significant and quantifiable impact on financial decisions among the employed. Therefore, improving financial knowledge can lead to better financial behavior and hence effective personal financial decision-making.

Results from this study indicate a large difference between actual and perceived financial literacy of the working population. More precisely, the tendency to overestimate the knowledge of the respondents is expressed in significantly higher scores in perceived financial literacy compared to scores for actual literacy. This finding responds to earlier studies indicating that people often overestimate their financial competency, which can further contribute to overconfidence in financial decisions (Lusardi & Mitchell, 2011).

The statistical analysis also showed a moderate to strong positive correlation between actual financial literacy and financial decision-making. This means that a person who is more knowledgeable about finance will have better and more informed financial decisions. Regression analysis further confirms that financial literacy significantly influences financial decision-making, explaining 27% of the variation in decision-making scores. These findings are in line with existing literature suggesting that financial literacy is an important factor in bringing about improved financial behaviours that enhance financial decision-making (Fox, Bartholomae, & Lee, 2005).

The implications of these results are far-reaching. First, they suggest that increasing financial literacy could lead to better financial decisions among employed individuals. This could have a direct impact on personal financial outcomes, such as improved savings rates, better investment decisions, and more effective debt management.

Secondly, the gap between actual and perceived financial literacy calls for targeted interventions aimed at reducing overconfidence. Financial education programs in workplaces or through digital platforms could help individuals align their self-assessment with their actual knowledge, potentially improving their decision-making abilities.

III. FUTURE SCOPE OF THE STUDY

The present study opens several avenues for future research. One important direction is the use of longitudinal studies to examine how financial literacy evolves over time and how these changes influence long-term financial behaviours and outcomes. Such a design would provide deeper insights into whether continuous financial education leads to sustained improvements in financial decision-making.

Future research may also explore diverse populations by analysing how financial literacy affects financial decisions across different demographic groups, including variations in income, education, age, and geographic location. Understanding these differences can help tailor financial education programs to address the specific needs and challenges of diverse segments of the population.

In addition, there is significant scope for incorporating behavioural insights into future studies. Psychological and behavioural factors—such as risk tolerance, overconfidence, and saving habits—play a crucial role in how individuals perceive and apply financial knowledge. Examining these aspects can help strengthen financial education initiatives by addressing behavioural barriers that limit effective decision-making.

Technological integration represents another promising area for further exploration. With the rapid rise of digital financial tools and platforms, it is important to understand how technology enhances or influences financial literacy and investment behaviour. Such research could support the development of innovative digital learning tools and financial management resources.

Finally, future research can assess the impact of government and organizational policies aimed at improving financial literacy. Evaluating the effectiveness of these programs will offer valuable insights for policymakers and educators, enabling them to design more impactful interventions that promote responsible financial behaviour and improved financial outcomes.

IV. CONCLUSION

The present study set out to assess the level of financial literacy among employed individuals and to examine how financial literacy influences their financial decision-making. The findings contribute to the expanding body of literature highlighting the critical role financial literacy plays in shaping responsible financial behaviour.

Results from the comparison of actual and perceived financial literacy indicate that while many individuals believe they possess adequate financial knowledge, their actual literacy levels may not always align with these perceptions. This gap underscores the persistent challenge identified by earlier scholars (Lusardi & Mitchell, 2011; Klapper et al., 2015), who emphasise the widespread overestimation of financial capabilities among working populations. Such mismatches can hinder sound financial planning and increase vulnerability to poor financial outcomes.

The study further confirms that higher levels of financial literacy are significantly associated with more informed and effective financial decision-making. This aligns with existing evidence suggesting that financial knowledge enhances budgeting, saving, investing, and risk-assessment behaviours (Fox et al., 2005; Bongini et al., 2012; González-Prida et al., 2025). Employed individuals with stronger financial understanding tend to make more rational choices, engage in long-term financial planning, and avoid high-risk or impulsive decisions.

Overall, the study highlights the pressing need for structured financial education initiatives, especially in the Indian context, where gaps in financial awareness remain pronounced (Garg & Singh, 2018; RBI, 2020). Strengthening financial literacy programs—whether through workplace training, educational institutions, community programs, or government-led initiatives—can empower individuals to manage their finances more effectively and enhance their long-term financial security.

While the study contributes valuable insights, future research can expand its scope by incorporating larger and more diverse samples, longitudinal designs to measure changes over time, and behavioural assessments to understand how individuals apply financial knowledge in real-world situations. Broader investigations may also explore demographic, psychological, and socio-economic factors that shape financial literacy outcomes.

In conclusion, financial literacy is not merely a desirable skill but a fundamental necessity in today's increasingly complex financial environment. Enhancing financial knowledge among employed individuals can lead to more confident decision-making, improved financial well-being, and a more financially resilient society.

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