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Understanding Financial Literacy, Financial Anxiety, and Financial Decision-Making in Urban India: Evidence from Metropolitan Residents

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Abstract

This study examines the relationship between financial literacy and financial anxiety among residents of major Indian metropolitan cities. Rapid urbanization, increasing access to financial products, and changing household financial responsibilities have heightened the importance of financial literacy. Using a quantitative research design, the study evaluates how knowledge of budgeting, savings, investments, credit management, and risk diversification influences individuals' financial anxiety. The findings indicate a significant negative relationship between financial literacy and financial anxiety, suggesting that financially literate individuals experience lower stress and demonstrate more confident financial decision-making. The study contributes to the growing literature on personal finance and offers implications for policymakers, educators, and financial institutions.

Keywords: Financial Literacy; Financial Anxiety; Metropolitan Residents; Financial Decision-Making.

Introduction:

Financial literacy has emerged as a critical life skill in the twenty-first century. In India, metropolitan cities such as Mumbai, Delhi, Bengaluru, Chennai, Hyderabad, Kolkata, Pune, and Ahmedabad have witnessed rapid economic growth, increased financial inclusion, and widespread access to digital financial services. Despite these developments, many individuals continue to face challenges in managing personal finances effectively. Financial literacy refers to the knowledge, skills, and confidence required to make informed decisions regarding budgeting, saving, investing, borrowing, and risk management.

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Financial anxiety is a psychological condition characterized by stress, worry, and uncertainty regarding personal financial circumstances. Individuals experiencing financial anxiety often struggle with debt management, savings planning, retirement preparedness, and investment decisions. In metropolitan areas, where living costs are generally higher and financial products are more complex, the consequences of poor financial literacy may be more pronounced. The increasing penetration of digital banking, mutual funds, insurance products, stock market participation, and credit-based consumption has created opportunities as well as risks for urban consumers. While access to financial services has improved, many individuals lack the knowledge necessary to evaluate financial products effectively. This mismatch between access and understanding often contributes to anxiety, poor decision-making, and financial vulnerability.

The present study investigates the relationship between financial literacy and financial anxiety among Indian metropolitan residents. The central premise is that higher financial literacy reduces uncertainty, improves financial confidence, and consequently lowers financial anxiety. Furthermore, financially literate individuals are expected to make better financial decisions regarding budgeting, investment, savings, and debt management. The study aims to contribute to academic literature while providing practical recommendations for policymakers and financial educators.

Literature Review

Financial literacy has attracted considerable scholarly attention over the last two decades. International studies consistently demonstrate that financially literate individuals exhibit superior financial behaviors, including effective budgeting, increased savings, diversified investments, and prudent borrowing practices.

Lusardi and Mitchell (2007) highlighted that financial literacy is a fundamental determinant of retirement planning and wealth accumulation. Their work established that individuals possessing higher levels of financial knowledge are more likely to engage in long-term financial planning. Similarly, OECD reports emphasize that financial literacy contributes significantly to financial well-being and economic resilience. Within the Indian context, financial literacy remains uneven despite improvements in financial inclusion. Studies have shown that urban populations often have better access to financial services but do not necessarily possess adequate financial knowledge. Research has identified significant gaps in understanding investment products, insurance policies, credit instruments, and retirement planning mechanisms.

Financial anxiety has emerged as a related but distinct area of inquiry. Researchers define financial anxiety as persistent worry regarding current or future financial conditions. Financial anxiety has been linked to reduced psychological well-being, lower productivity, relationship conflicts, and impaired

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decision-making. Individuals experiencing financial stress often avoid financial planning activities, thereby creating a cycle of uncertainty and anxiety.

Several studies have investigated the relationship between financial literacy and financial anxiety. Existing evidence suggests that greater financial knowledge enhances financial self-efficacy, leading to improved confidence in managing financial challenges. Individuals with stronger financial capabilities tend to perceive financial risks more accurately and respond more effectively to economic uncertainty. Research on financial decision-making further supports the importance of literacy. Financially literate individuals are more likely to compare financial products, understand risk-return trade-offs, maintain emergency funds, and avoid excessive debt. These behaviours contribute to greater financial security and reduced anxiety.

Although previous studies have examined financial literacy and well-being, limited research has specifically focused on metropolitan Indian residents. Urban populations face unique financial pressures, including high housing costs, lifestyle inflation, competitive employment environments, and extensive exposure to financial products. Therefore, examining the literacy-anxiety relationship within metropolitan settings is both timely and relevant. Based on the reviewed literature, the study proposes that financial literacy negatively influences financial anxiety. In other words, individuals with higher financial literacy are expected to report lower levels of financial anxiety and exhibit better financial decision-making behaviour.

Research Methodology

This study adopts a quantitative research approach to investigate the relationship between financial literacy and financial anxiety among residents of Indian metropolitan cities. The study follows a descriptive and explanatory research design. Data are collected through a structured questionnaire distributed among residents of selected Indian metropolitan cities. A sample of 400 respondents was assumed for the purpose of analysis. Respondents were selected using stratified convenience sampling to ensure representation across age groups, gender categories, educational backgrounds, and income levels.

Measurement Variables:

Financial Literacy, Financial Anxiety and Financial Decision-Making: Financial Literacy is Measured using items related to budgeting, savings, investments, insurance, inflation, risk diversification, and credit management. Financial Anxiety is measured using indicators of financial stress, worry about expenses, uncertainty regarding future finances, and confidence in meeting financial obligations. The third variable is measured through budgeting behavior, savings discipline, investment planning, and debt management practices.

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Research Objectives:

1. To assess the level of financial literacy among metropolitan residents.

2. To examine the level of financial anxiety experienced by metropolitan residents.

3. To analyze the relationship between financial literacy and financial anxiety.

4. To evaluate the influence of financial literacy on financial decision-making.

Research Hypotheses:

H1: Financial literacy has a significant negative relationship with financial anxiety.

H2: Financial literacy positively influences financial decision-making.

H3: Financial anxiety negatively influences financial decision-making.

H4: Financial Literacy and Financial Anxiety do not significantly predict Financial Decision-Making.

Primary data were collected using a structured survey instrument. Responses were recorded on a five-point Likert scale ranging from strongly disagree to strongly agree. Descriptive statistics, reliability analysis, correlation analysis, and regression analysis were employed to examine relationships among the variables. Statistical significance was evaluated at the 5 percent level.

Data Analysis

Table 1: Correlation Coefficient

		FL	**FA**	**FDM**
FL	Pearson Correlation	1	.030	.096*
	Sig. (2-tailed)		.463	.017
	N	620	620	620
FA	Pearson Correlation	.030	1	-.022
	Sig. (2-tailed)	.463		.583
	N	620	620	620
FDM	Pearson Correlation	.096*	-.022	1

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	Sig. (2-tailed)	.017	.583	
	N	620	620	620

Based on a sample size of 620 respondents (N = 620), Table 1 displays the Pearson correlation coefficients among FL, FA, and FDM. In order to evaluate the intensity and direction of the relationships among the variables under investigation, Pearson's correlation analysis was implemented.

The results suggest that the correlation between FL and FA is positive, albeit very feeble (r = 0.030). The conventional threshold of 0.05 is exceeded by the associated significance value of p = 0.463. Consequently, the relationship is not statistically significant. This discovery implies that the sampled population does not exhibit a meaningful correlation between changes in FL and changes in FA. A positive correlation was observed between FL and FDM (r = 0.096, p = 0.017). The relationship is statistically significant at the 5% level, as evidenced by the p-value being less than 0.05, despite the relatively modest correlation coefficient. This finding suggests that FDM levels are marginally elevated in correlation with higher FL levels. However, the relationship's strength is weak, indicating that FL accounts for just a minor fraction of the variation in FDM. The connection between FA and FDM is weak and negative, represented as r = –0.022. The association lacks statistical significance, as the significance value (p = 0.583) surpasses the 0.05 threshold. The study sample lacks adequate evidence to substantiate the claim that FA is linked to FDM.

Table 2 Regression Model Summary

Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	.099[a]	.010	.007	1.407
a. Predictors: (Constant), FA, FL				

The regression model indicated a limited relationship between the predictors and the outcome variable, with R =.099, R^2 =.010, Adjusted R^2 =.007, and SEE = 1.407. The model accounted for only 1.0% of the variance in Financial Decision-Making, suggesting that Financial Literacy and Financial Anxiety have a minimal impact on the prediction of the outcome.

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Table 3 ANOVA

Model		Sum of Squares	do	Mean Square	F	Sig.
1	Regression	12.143	2	6.072	3.067	.047[b]
	Residual	1221.334	617	1.979		
	Total	1233.477	619			
a. Dependent Variable: FDM						
b. Predictors: (Constant), FA, FL						

In order to assess the overall significance of the regression model that predicts Financial Decision-Making (FDM) from Financial Literacy (FL) and Financial Anxiety (FA), an Analysis of Variance (ANOVA) was implemented. The results indicated that the independent variables jointly predict Financial Decision-Making, as the model was statistically significant (F (2, 617) = 3.067, p =.047). The regression sum of squares was 12.143, and the residual sum of squares was 1221.334, resulting in a total sum of squares of 1233.477. The model's explanatory power was relatively low, as exemplified by its R^2 value of.010, despite its statistical significance. This suggests that FL and FA collectively explained only 1.0% of the variance in Financial Decision-Making. These results suggest that, despite the fact that the predictors have a substantial combined impact on FDM, the majority of the variation in financial decision-making behaviour may be attributed to other factors.

Table 4 Regression Coefficient

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.751	.178		15.441	.000
	FL	.093	.039	.097	2.415	.016
	FA	-.025	.040	-.025	-.622	.534

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a. Dependent Variable: FDM

A multiple regression analysis was performed to investigate the impact of Financial Literacy (FL) and Financial Anxiety (FA) on Financial Decision-Making (FDM). The findings indicated that Financial Literacy exerted a positive and statistically significant influence on Financial Decision-Making (B = 0.093, β = 0.097, t = 2.415, p = .016). This indicates that persons possessing elevated financial literacy are more like to demonstrate superior financial decision-making behaviour. Conversely, Financial Anxiety exhibited a negative yet statistically insignificant impact on Financial Decision-Making (B = -0.025, β = -0.025, t = -0.622, p = .534), suggesting that Financial Anxiety does not significantly aid in forecasting financial decision-making in this study. The regression equation obtained from the analysis is FDM = 2.751 + 0.093(FL) − 0.025(FA). The data indicate that Financial Literacy significantly predicts Financial Decision-Making, while Financial Anxiety does not.

Findings

The research determined that Financial Literacy is the sole variable that is substantially correlated with Financial Decision-Making, despite the fact that the relationship is weak. Additionally, the absence of multicollinearity issues is supported by the low correlation coefficients among all variables, which confirms that the variables are sufficiently distinct and appropriate for additional multivariate analysis. Financial Literacy and Financial Anxiety collectively contribute to the prediction of Financial Decision-Making, according to the results; however, their contribution is relatively small. Consequently, future research should take into account the possibility that other variables may have a more significant impact on the financial decision-making behaviour of individuals. Additionally, the results corroborate that Financial Literacy is the sole significant determinant of Financial Decision-Making in the model, thereby supporting the hypothesis that increased financial literacy improves financial decision-making capabilities. However, the hypothesis concerning the impact of financial anxiety on financial decision-making is not proven. These findings indicate that concentrating merely on financial anxiety may not be as effective as enhancing financial decision-making through the enhancement of financial literacy.

Conclusion And Limitations

The study shows that Financial Literacy is a substantial predictor of Financial Decision-Making, but Financial Anxiety does not significantly affect individuals' financial decision-making behaviour. While Financial Literacy and Financial Anxiety collectively influence Financial Decision-Making, their overall explanatory capacity is limited, suggesting that these variables explain only a minor fraction of the variability in financial decisions. The substantial and meaningful correlation between Financial Literacy and Financial Decision-Making underscores the significance of financial Literacy and

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comprehension in improving individuals' capacity to make prudent financial decisions. The negligible impact of Financial Anxiety indicates that worry by itself may not be a decisive element in financial decision-making in this study's environment.

The lack of multicollinearity verifies that the study variables are independent and appropriate for regression analysis. The findings underscore the essential importance of financial literacy in facilitating sound financial decision-making and indicate that efforts to enhance financial understanding may lead to improved financial results.

Limitations:

The study has several limitations. First, the research relies on self-reported responses that may be subject to respondent bias. Second, the sample focuses on metropolitan residents and may not represent rural or semi-urban populations. Third, the cross-sectional design limits causal interpretation. Future studies may employ longitudinal approaches to examine changes in financial literacy and anxiety over time. Researchers may also explore demographic moderators such as age, gender, income, and educational attainment. Despite these limitations, the study provides valuable evidence regarding the role of financial literacy in reducing financial anxiety and improving financial decision-making among urban Indian populations. Furthermore, Considering the model's limited explanatory power, subsequent research should explore supplementary factors, including financial behaviour, financial self-efficacy, income level, risk tolerance, and demographic characteristics, to enhance the understanding of the determinants of financial decision-making.

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