UNDERSTANDING THE FINANCIAL BEHAVIOUR OF MIDDLE-CLASS FAMILIES AND HOW COUNTRY WILL GET BENEFITS FROM THIS UPCOMING MIDDLE-CLASS BOOM

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ABSTRACT

Overview and Main Findings

This study looks closely at how middle-class families in India handle their money, aiming to understand their financial behavior. Because the middle class is the foundation of India's economy, the research checks out how they make money in use, and how much they earn, save, spend, and invest. It also explores how these families could bring a positive change in India. By the time **India celebrates 100 years of independence, we can take the estimation value approx. 63% of the population will be part of the middle class. This study identifies areas where middle-class families face financial challenges, such as managing debt, balancing competing financial priorities, prepare their budget lists for household activities**.

In addition, our study delves into the mental strength reflected in middle-class families as they navigate through challenging situations with a positive attitude, which we refer to as their adeptness in handling difficulties with smiles. This research contributes to the targeted strategies and interventions that promote financial literacy, encourage financial management, and boost the long- term financial security and prosperity for those the awareness policies.

The middle-class segment constitutes nearly half of the country's populace, making it a pivotal demographic to study. In the context of India, this demographic offers a multitude of advantages. It creates a fertile ground for nurturing entrepreneurial talent, with successful entrepreneurs tracing their roots back to middle-class backgrounds. It may lead to a surge in remittances and a noteworthy augmentation of India's GDP. Investigating the extricated interplay between the middle-class, entrepreneurship, and economic growth unveils a captivating landscape for emerging exploration.

LITERATURE REVIEW

The most common way of reacting to financial difficulties is cutting current expenses (Fiksenbaum et al. 2017; French and Vigne 2019) and using emergency savings (Baek and DeVaney 2010; Wiersma et al. 2020). For instance, discretionary spending can be cut, and individuals can switch to cheaper substitutes for necessities (Fiksenbaum et al. 2017; Wiersma et al. 2020). The second most popular type of financial behaviour during hardship is borrowing, from either family or friends (French and Vigne 2019; Lusardi et al. 2011; Wiersma et al. 2020), or taking out loans and consumer credit (Gamble et al. 2019; Majamaa et al. 2019; Wiersma et al. 2020). The third type of behaviour relates to activities that increase income (Fiksenbaum et al. 2017; Wiersma et al. 2020), such as working more or selling personal possessions. Another financial behaviour that people report to overcome their financial difficulties with is gambling, that is, trying their luck in various lotteries and games, such as betting, gambling, lotteries, and slot machines (Callan et al. 2008; Lusardi et al. 2011).

Noteworthy, these previous studies analysed financial behaviour related to the individual (Lusardi et al. 2011; Wiersma et al. 2020) or household financial difficulties (Baek and DeVaney 2010; Dew and Xiao 2013) and did not necessarily concern a particular societal context, such as financial boom and bust periods (for exceptions, see Baek and DeVaney (2010) and Dew and Xiao (2013) for the results in response to economic depression of 2007–2009). A systematic review on household financial strain (French and Vigne 2019) confirmed that the strategies people apply on an individual or household level are strikingly similar. Moreover, even though the studies are positioned as taking place at a specific time period (e.g., boom or bust periods), they did not make direct comparisons of the same identical questions assessed at different time periods (e.g., boom vs. bust periods). Consequently, our study was set to fill this gap by directly comparing financial behaviour related to individual financial challenges at different time periods.

In addition, the previous studies varied in the ways they operationalized financial hardships. For example, Lusardi et al. (2011) and Wiersma et al. (2020) asked respondents to evaluate the hypothetical situation of how they would cope with an unexpected 2000 Euro expense in the next month. Baek and DeVaney (2010) asked families retrospectively, whether they experienced any financial difficulties (e.g., income shortfall) during the past year and about their reactions to these financial difficulties. Fiksenbaum et al. (2017) asked undergraduate students about their own or their families' economic hardship in the last few years. They used the Economic Hardship Questionnaire of Lempers et al. (1989), where the 10 items included not only the degree of economic hardship but also some aspects of exact financial behaviour under financial strain (e.g., "Change food shopping or eating habits to save money?").

People's ability to successfully manage their finances relates to their well-being (Dew and Xiao 2013; Serido et al. 2013), and living under economic strain has been suggested to have negative effects on individuals' mental and physical health. As a consequence, living under economic strain may have adverse effects on the whole society (French and Vigne 2019). Thus, it is important to understand people's financial behaviour when they face economic difficulties (Baek and DeVaney 2010; Fiksenbaum et al. 2017; Lusardi et al. 2011; Wiersma et al. 2020). Although there is research about consumers' saving behaviour in different age groups (e.g., Dwyer et al. 2011; Webley and Nyhus 2001), as well as on their attitudes towards credit and debt (e.g., Cloutier and Roy 2020; Gamble et al. 2019; Ottaviani and Vandone 2011), there are too few studies focusing on different kinds of financial behaviour under economic strain (Baek and DeVaney 2010; Lusardi et al. 2011; Wiersma et al. 2020).

Multiple social, demographic, economic, and psychological factors affect the ways individuals use their money in different situations. People exhibit different ways of coping with economic strain, such as cutting expenses (Baek and DeVaney 2010), borrowing (Wiersma et al. 2020), increasing income (Fiksenbaum et al. 2017), and gambling (Lusardi et al. 2011). Financial behaviour depends on income and thus varies by age group. For instance, as young adults are on the verge of gaining financial independence, their low purchasing power makes them cut their expenses, especially when facing financial difficulties (Ranta et al. 2020a). In studies on saving and indebtedness, classical economic theories—permanent income hypothesis (Friedman 1957) and the life cycle theory of savings and consumption (Modigliani and Brumberg 1954)—have been applied. According to these theories, people try to save during their middle age and spend more than their income in their old age. Thus, financial decisions are rational and based on expected future incomes (Friedman 1957; Modigliani and Brumberg 1954).

Theories on financial behaviour as a function of age have been questioned, since many social and psychological factors affect the use of money in different situations. Moreover, people's behaviour under economic strain is affected by macro-economic conditions (French and Vigne 2019; Hira 2012) including unemployment in particular, but also the availability of credit and loans.

Rationale and Significance: I chose this topic to identify research gaps due to my "own experience in middle-class families. Growing up, I witnessed the challenges of household and cash flow management. Given the crucial role of the middle class in India's GDP, there's a pressing need to address the issues they face. "With the middle-class population projected to increase, potentially surpassing China's by 2025, the urgency becomes evident.

"Sets" the foundation, highlighting the dependence of earnings on family size. Moreover, as India's middle-class proportion reaches 63% around its 100th independence anniversary, exploring the potential economic impact becomes intriguing. **This research can uncover opportunities for this dynamic group to drive India's growth and development and also indicate that delving into investment and leveraging compound interest strategies has the potential to empower middle-class families."**

Its main aim is to give a transparency view of the people and get familiar with new trends should be aware of every benefit they can use to their advantage.

By understandings the **financial behavior of middle-class families. "we" can gain insights into how they are badly/ impacted by inflation rates and the resulting financial pressures. This understanding can shed light on the challenges they face due to rising costs and reduced purchasing-POWER.**

Objective: **We can empower middle-class families to make informed financial decisions, achieve stability, and contribute to the growth and progress of India, ultimately strengthening the foundation of the nation's economy.**

""Exploring The Equation of Middle-Class Families: Income Sources, Earning Capacity, Expenditure Patterns, and Investment Preferences in Their Respective Fields,

"Budgeting and Expense Management for Middle-Class Families: Financial literacy and educational, smart investment and retirement determination, Debt management, seek professional advice, Recognition and Support, learning to avoid debt trap.

"Savings/Investment" Concepts: The importance of Following the 50:30:20 rule for Middle-ClassFamilies.

" Middle-class families are the backbone of India: Economic Engine, Made Remittances For Indian GDP
Employment generation, social mobility, Government Revenue,
Demand for housing, Resilience, Entrepreneurship.

UNDERSTANDING THE FINANCIAL BEHAVIOUR OF MIDDLE-CLASS FAMILIES

“” RICH PEOPLE BUY LUXURIES LAST, WHILE THE POOR AND MIDDLE CLASS TEND TO BUY LUXURIES FIRST “”

INTRODUCTION

I. Earning Capacity, Expenditure Patterns, and Investment Preferences in Their Respective Fields,

Inflation is rising so fast, the definition of “Middle class “was not changed so, by digging into the structure, I was able to concern about the pattern that most middle-class families follow. And it is also a concern for us to know about the Indian middle-class families are the backbone of India, as they play a crucial role in the Indian economy.
*Not-only in number but also according to upward income trends and consumption. A closer examination of the Indian middle-class lifestyle reveals several distinct patterns. Education is a paramount value, with families often prioritizing "higher education to secure better opportunities for their children. This emphasis on education has a cascading effect, leading to a growing demand for quality educational institutions and resources.

Additionally, middle-class households are drivers of consumption. Their discretionary spending on goods and services contributes significantly to economic growth. As this segment: continues to expand and upgrade its consumption habits, industries catering to their needs experience a corresponding boost: This includes sectors such as housing, automobiles, electronics, and leisureactivities.

Furthermore, the middle-class acts as a bridge between the lower-income and upper-income segments, often benefiting from government policies /aimed at improving social welfare. This dynamic creates a sense of responsibility and aspiration, driving them to seek upward mobility and engage in entrepreneurship and innovation.

/In essence, the Indian middle class plays a multifaceted role that extends *beyond numbers. It

*is a driving force behind economic growth, a catalyst for social change, and a reservoir of innovation and enterprise. The segment's upward income trends and consumption patterns make it an indispensable component of India's economic landscape, ensuring a resilient and dynamic future for the nation. However:,

The equation **"Middle-class families total income = earnings ÷ number of members in their families"**

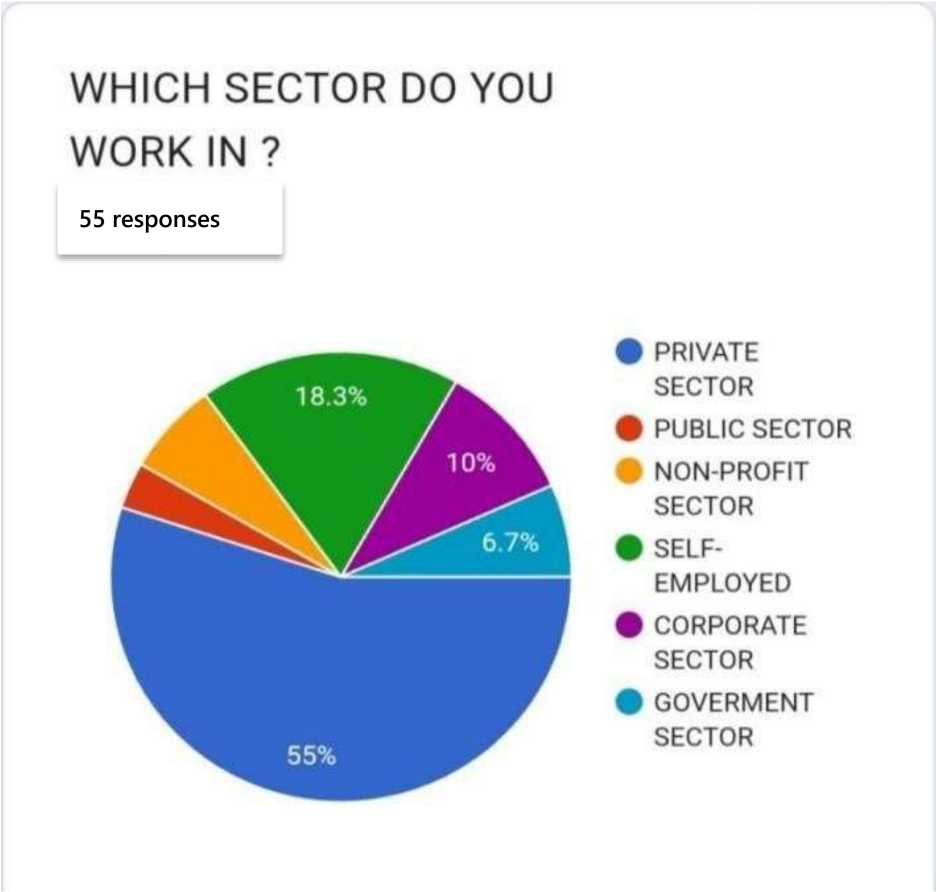
offers a fascinating lens into the financial dynamics of middle-class households. This simple formula underscores that a family's income is intricately tied to its size.

For larger families, income is divided among more members, necessitating careful financial planning. Each additional family member influences the disposable income per person, shaping spending patterns and communal well-being. On the other hand, smaller families enjoy greater spending flexibility, but the responsibility to safeguard resources for the future might be more pronounced.

let us also remember that while formulas provide structure, it's the stories within families—the dreams pursued, the challenges overcome, and the unity forged—that breathe life into these equations. In the mosaic of middle-class lives, numbers are a starting point, but the human spirit is the masterpiece.

Savings Strategies 50/30/20 rule which suggests allocating **50%** of your income to **needs, 30%** to **wants,** and **20% to savings and debt repayment** , **personal finance is just that - personable**. While the 50/30/20 rule provides a useful framework , we should adapt it for individuals needs and goals and stabilities in their life.

II. PRIVATE SECTOR’S SIGNIFICANTCONTRIBUTION TO INDIA’S GDP



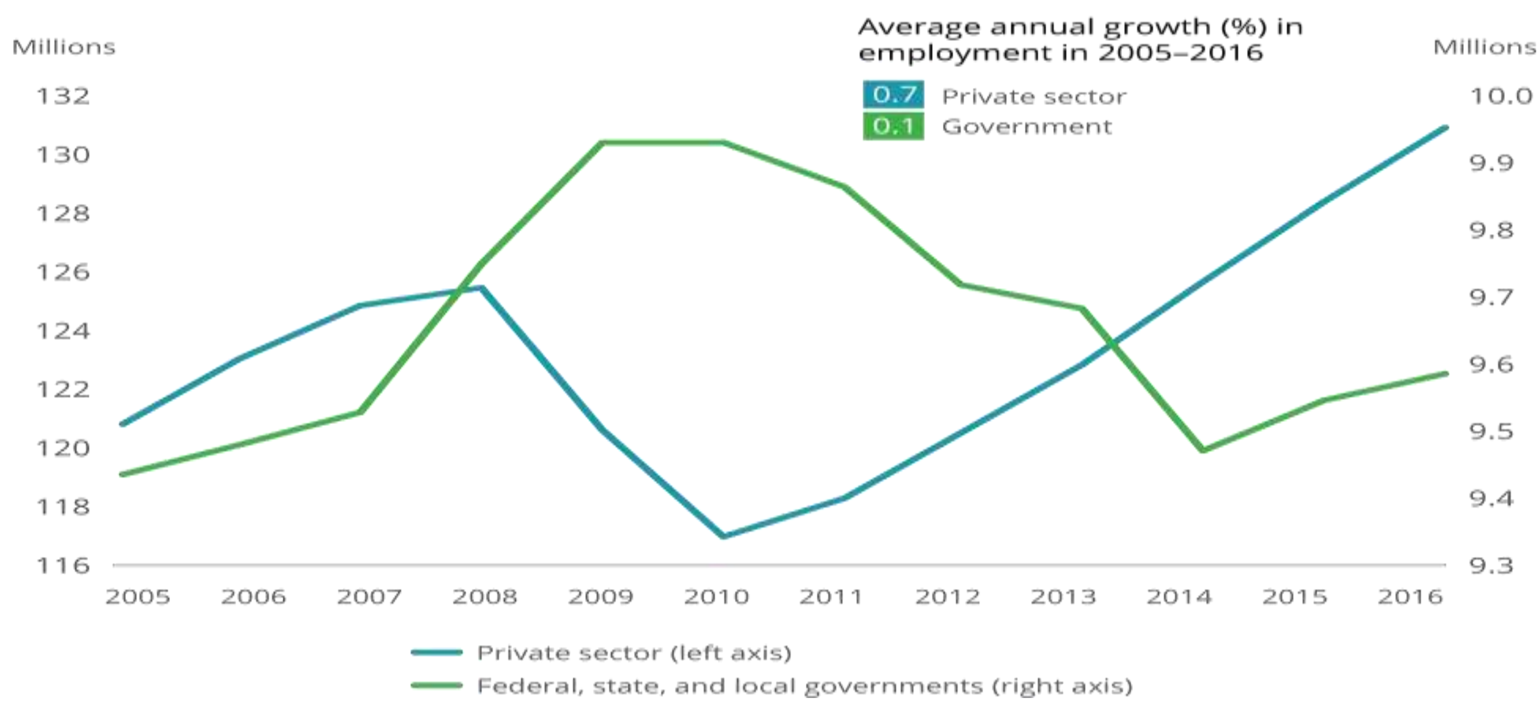
■ The private sector plays a pivotal role in India's economic landscape. Its contributions extend beyond GDP growth, job creation, and innovation. It also fosters competition, which leads to better products and services for consumers. "Additionally, the private sector often brings advanced technologies and practices, contributing to skill development and knowledge transfer within the country. Furthermore, its flexibility and adaptability allow quicker responses to market changes, making the economy, the private sectorenhances India's global economic integration and strengthens its position in the international market.

■ It's important to note that self-employment also comes with "challenges whereas financial situations and inconsistent income, "It's essential to thoroughly research and plan before embarking on a self-employment journey.

Self-employment offers several advantages, including Being your work setting your schedule and working on projects that align with your interests and values. You have control over your business decisions, allowing you to shape your brand, products, and services according to your vision. Successful self-employed individuals have the potential to earn more based on their efforts and the value they provide. Self-employment often involves pursuing your passions, which can lead to increased creativity and job satisfaction.: Depending on your location and business structure, you may have access to various tax deductions and benefits that can reduce your tax liability. You're not reliant on a single employer, reducing the risk of sudden job loss due to company downsizing or restructuring. "As a self-employed individual, while self-employment can be demanding, it also offers the potential for a better work-life balance as you have more control over your time. Building and growing your business can bring a strong sense of achievement and personal satisfaction.

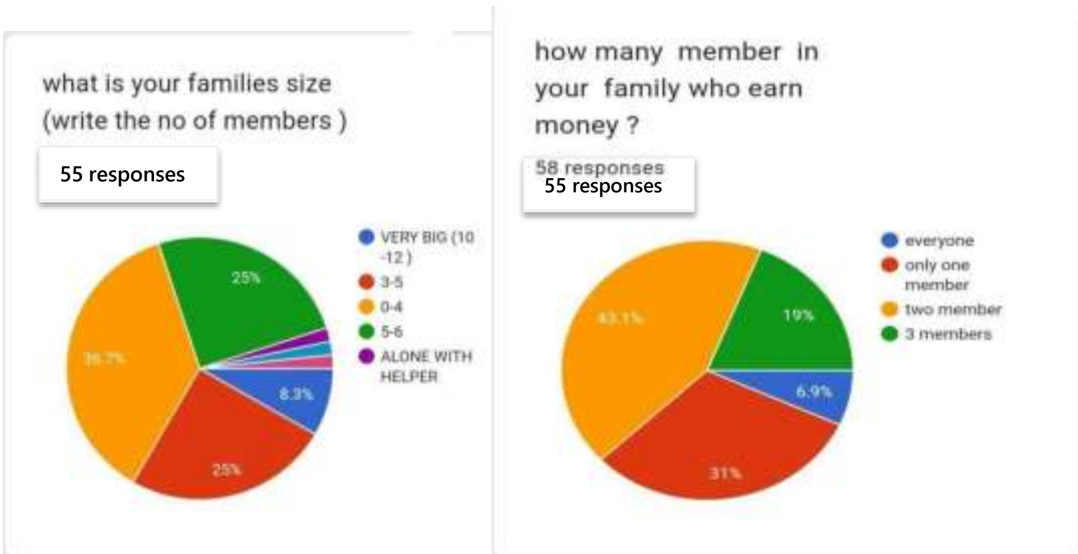
■ In the administration of the government sector, there is a bureaucracy, lack of innovations, limited accountability, political influence, resource allocations, job securityover merit, lack of incentives, complex regulations, resistance-change.

Figure 1. Government employment is less tied to business cycles



III. **Budgeting and Expense Management:** Financial literacy and educational, smart investment and retirement determination, Debt management, seek professional advice, Recognition and Support, learning to avoid debt trap.

a) WHEN A MIDDLE -CLASS FAMILIES HAS MORE NO OF MEMBERS ITCREATES FINANCIAL PRESSURE



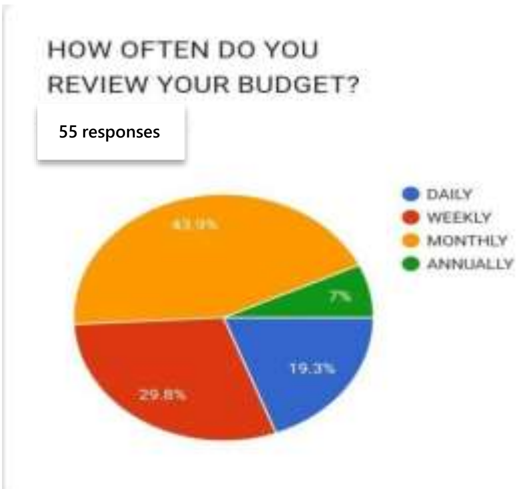
Nowadays-people want to live a simple and stress-free life with a short family has been a growing trend among some individuals to seek a simpler and more minimalist lifestyle to reduce their financial stress. But In most Middle-Class Families.

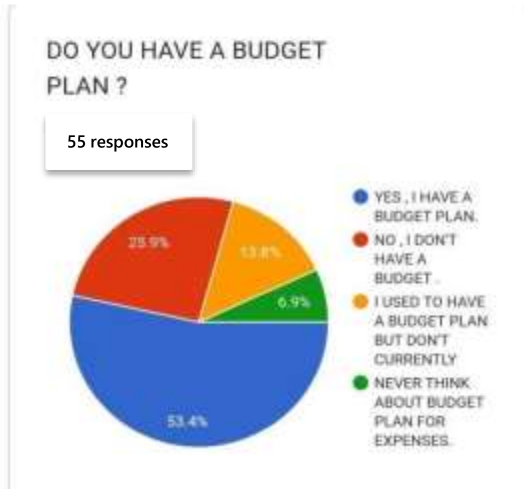
Financial challenges they may face include: -

- Increasing living expenses
- Limited income source
- Education costs
- Healthcare expenses
- Limited savings and investments

To alleviate the financial pressure must practice effective financial planning and budgeting essential expenses and prioritize them over discretionary spending. Focus on providing for basic needs and education. Explore opportunities for additional income, such as part-time jobs, freelancing, or starting a small business. Every member who is capable of contributing can participate in generating. Look into government schemes, subsidies, or assistance programs that can provide financial support for education, healthcare, or housing. Save a small portion of the income regularly to build an emergency fund that can be movable during the unexpected "scenario.

B) BUDGETS ANALYSIS IS HIGHLY IMPORTANT FOR MIDDLECLASS FAMILIES





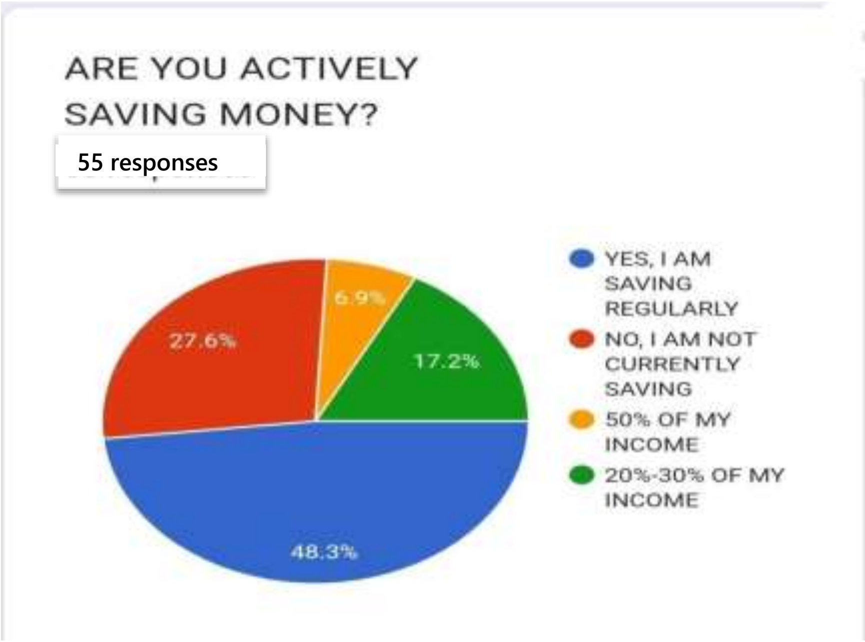
Budget analysis is crucial for middle-class families as it helps manage income, track expenses,manage debt, save for the future, achieve financial goals, promote financial security, and foster financial literacy. It serves as a tool for families to optimize them

Financial resources and make the most of their income, leading to improved financial well-being and stability.

There are several budgets tools that can assist individuals in analysis finances.

- Mint
- You need a budget.
- Excel and Google sheets
- Pocket guard
- Good budget

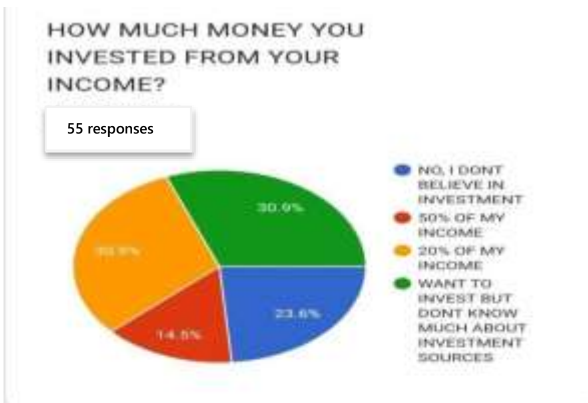
c) i. SAVING MONEY: MIDDLE-CLASS STRATEGIES



Saving money is a long-term commitment that requires discipline and consistency. By implementing these strategies and making conscious choices about your spending habits, middle-class family can actively save money and work towards their financialgoals.

- ☐ Create a Budget: Start by creating a comprehensive budget that includes allsources ofincome and tracks all expenses.
- ☐ Track Expenses: Keep track of your expenses and review them regularly. Identifyareaswhere you can reduce or eliminate unnecessary spending, such as eating out less frequently or cutting down on entertainment expenses.
- ☐ Reduce Housing Costs: Housing is often the biggest expense for a family. Consider downsizing to a smaller home or apartment if feasible or explore options to refinanceyour mortgage to lower interest rates.
- ☐ Cook at Home: Dining out or ordering takeout can be costly.
- ☐ Save on Utilities: Be conscious of your energy and water usage. Turn off lights andappliances when not in us

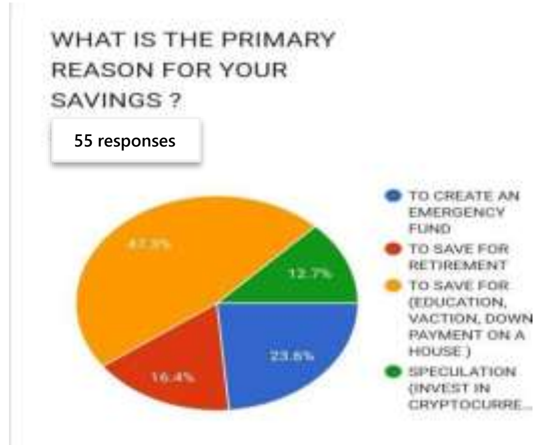
ii MIDDLE-CLASS INVESTMENT STRATEGIES



About 30.9% the population may not have a deep understanding of investment principles or-strategies.23.6% people did not believe in investment,

- Lack of knowledge
- Past negative experience
- Perception of complexity
- Emotional biases
- Preference for tangible assets

MIDDLE-CLASS SAVINGS STRATEGIES



While saving money is important, it's also essential to strike a balance between saving and enjoying the present. It's important to allocate funds for both short-term needs and long-termgoals while also allowing for some discretionary spending and enjoyment.Important to start saving for education and emergency funds as early as possible. Regular contributions and disciplined savings habits can make a significant differenceover time.

Automating savings or setting up a separate account specifically for these purposes can helpensure consistent progress towards achieving these financial goals.

iii. **METHODOLODY**

Research Design and Sample : This study use a t-test research design you will compare the financial behaviors of two groups: those who believe in savings and those who believe in investments.within a sample size of 55.

Research Question:
Do beliefs in savings or investments have an impact on middle-class families' financial behaviors in the context of an upcoming economic boom?

Data analysis : Sample size: 55
Percentage of people believing in savings: 49%
Percentage of people believing in investments: 39%
We'll use these percentages to calculate the actual counts of people believing in savings and investments:
Number of people believing in savings: 55 * 0.49 = 26.95 (rounded to 27)
Number of people believing in investments: 55 * 0.39 = 21.45 (rounded to 21)

Hypotheses:<u>Null Hypothesis (H0):</u> There is no significant difference in the proportions of people who believe in savings and those who believe in investments.
<u>Alternative Hypothesis (Ha):</u> There is a significant difference in the proportions of people who believe in savings and those who believe in investments.

Results: t-Statistic: -2.675
Degrees of Freedom: 54
P-value: 0.0103 (approximately)

Interpretation: The calculated p-value (0.0103) is less than the significance level (0.05), indicating a significant difference in the proportions of people who believe in savings and those who believe in investments.

DISCUSSIONS:

Based on the two-sample t-test analysis with the assumed proportions and a sample size of 55, we conclude that there is a significant difference in the proportions of people who believe in savings and those who believe in investments. This suggests that there might be a notable difference in beliefs among the sampled population regarding financial strategies in the context of an upcoming economic boom.

Conclusions while saving is important for financial stability and covering immediate needs, investing has the potential to create substantial wealth over time, thanks to the power of compound interest. By choosing suitable investment vehicles, diversifying, and remaining committed to a long-term strategy, individuals can harness the benefits of investing and work towards achieving their financial aspirations

Education and Patience:

To succeed in investing, education and patience are key. Understanding different investment options, assessing risk tolerance, and setting clear goals are essential steps. Additionally, maintaining a long-term perspective and not succumbing to short-term market fluctuations is crucial.

Risk and Diversification:

It's important to note that investing involves risk, as asset values can fluctuate. However, smart investing involves diversifying your portfolio by spreading investments across different assets. Diversification helps reduce risk and increases the potential for stable returns over time

long-Term Wealth Accumulation:

Investing can lead to significant wealth accumulation, especially when done consistently over a long period. While saving is essential for short-term needs and emergencies, investing provides the potential for your money to grow faster and achieve long-term financial goals, such as retirement, buying a home, or funding education.

The Power of Compound Interest:

One of the key advantages of investing is the power of compound interest. Compound interest is the process where you earn interest not only on your initial investment but also on the interest earned over time. This compounding effect can significantly boost your wealth over the long run.

“Example Illustrating Compound Interest:
Let's consider an example to illustrate the impact of compound interest:”

{Suppose you invest Rs 10,000 in an investment that earns an annual return of 8%. After the first year, you'd have earned Rs800 in interest. In the second year, you earn 8% not only on your initial Rs10,000 but also on the Rs800 interest earned in the first year, leading to a total of Rs10,800. This cycle continues, and over time, your investment grows substantially.}

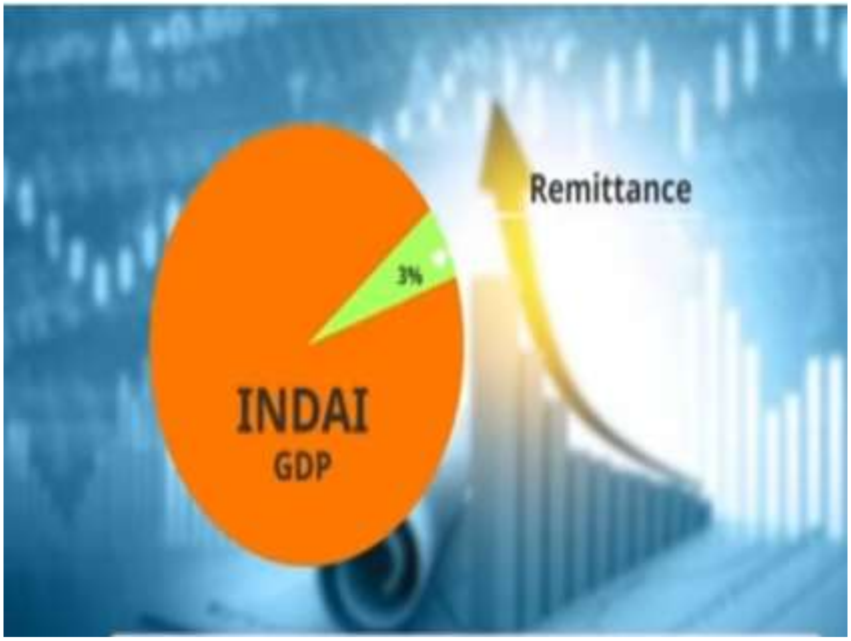
Limitation and strength : we can consider some potential limitations when conducting research on the relationship between belied in saving and investment,financial behaviors, and India's potential benefits from an upcoming economic boom

- **Sampling Bias**: The sample of middle-class families you're studying might not be representative of the entire population, potentially leading to biased results.
- **Small Sample Size**: A sample size of 55 might limit the statistical power of your analysis and the ability to detect subtle effects.
- **Validity of Economic Models:** Economic models might oversimplify complex real-world interactions, leading to less accurate projections
- **Temporal Factors:** Economic conditions might change over time, affecting both financial behaviors and economic outcomes
- **Economic Volatility:** Economic booms and their benefits can be influenced by a wide range of external factors beyond individual financial behaviors

iv .Middle-class families are the backbone of India: why we add middle-class

to development of indian economy

On one hand, economic development creates the middle class, and on the other hand, the middle class contributes to economic development. It acts like accumulated fuel in India's growth engine. The middle-class population is estimates to reach 102 crore out of the projected total population of 166 crore in 2047 approx. 61% the report predicts and right now it stood at 43.2 crore in year of 2022 .The remittances received fuel the development of the Indian economy in the form of consumption and investments. Almost every year, the contribution is nearly 3% of India's GDP. Behind this contribution, 2% comes from middle-class families, as they belong to **"well-educated families, and middle level business class"** they have purpose, to drive the economical stabilities, the determination to make sacrifices for their family members' earnings. It not only creates remittance but is **directly responsible** for Employment generation, social mobility, Government Revenue,Demand for housing, Resilience, Entrepreneurship, Introducing the innovations and advance technologies which the other top counties have now
We should give more supports to middle-class families mainly in the field of educations.



NAME *

Short answer text

GENDER

- FEMALE
- MALE
- OTHER

YOUR CURRENT LOCATIONS ? *

Short answer text

WHICH AGE GROUP YOU ARE FROM ?

- 20-30
- 30-40
- 40-50
- 50-60

WHICH SECTOR DO YOU WORK IN ? *

- PRIVATE SECTOR
- PUBLIC SECTOR
- NON-PROFIT SECTOR
- SELF- EMPLOYED
- CORPORATE SECTOR
- GOVERMENT SECTOR

what is your families size (write the no of members)

- VERY BIG (10 -12)
- 3-5
- 0-4
- 5-6
- ALONE WITH HELPER

how many member in your family who earn money ?

- everyone
- only one member
- two member
- 3 members

WHAT IS YOUR ANNUALLY INCOME?

- LESS THAN 2,00,000
- 2,00,000-5,00,000
- 5,00,000-10,00,000
- 10,00,000-15,00,000
- 15,00,000-20,00,000

WHAT IS YOUR TOTAL MONTHLY INCOME ?

Short answer text

IS ANYBODY IN YOUR FAMILY WORKED IN ABORAD? "WRITE HOW MANY "

Short answer text

HOW MUCH YOUR MONTHLY EXPENDITURE?

Short answer text

DO YOU HAVE A BUDGET PLAN ?

- YES , I HAVE A BUDGET PLAN.
- NO , I DON'T HAVE A BUDGET .
- I USED TO HAVE A BUDGET PLAN BUT DO...
- NEVER THINK ABOUT BUDGET PLAN FOR ...

HOW OFTEN DO YOU REVIEW YOUR BUDGET?

- DAILY
- WEEKLY
- MONTHLY
- ANNUALLY

DO YOU HAVE ANY INSURANCE PLAN ?

- [ ] HEALTH INSURANCE
- [ ] LIFE INSURANCE
- [ ] FAMILY HEALTH PLAN INSURANCE
- [ ] NOT BELIVE IN INSURANCE PLAN

IF YOU HAVE SOUGHT PROFESSIONAL FINANCIAL ADVICE, WHAT WAS THE REASON?

- ○ INVESTMENT ADVICE
- ○ RETIREMENT PLANNING
- ○ DEBT MANAGEMENT
- ○ TAX PLANNING
- ○ OTHER

HOW CONFIDENT DO YOU FEEL ABOUT YOUR ABILITY TO MANAGE YOUR FINANCES?

B I U

- VERY CONFIDENT
- SOMEWHAT CONFIDENT
- NOT VERY CONFIDENT
- NOT AT ALL CONFIDENT

WHAT IS MORE IMPORTANT FOR YOU?

- GIVE PROPER EDUCATION TO YOUR CHIL...
- CHILD'S MARRIAGE
- SAVING MONEY
- INVESTING MONEY
- GIVE DONATION FOR SOCIAL WALEFARE
- TAX PAYMENT