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UNLOCKING STOCK MARKET ACCESS: EVALUATING THE ROLE OF FINANCIAL LITERACY PROGRAMS IN EMPOWERING LOW-INCOME COMMUNITIES

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Abstract:

The present work aims at analyzing the effects of developing financial literacy programs on the level of engagement of the subpopulation with the stock market. To this end, the study aims at evaluating the impact of financial literacy campaigns in educating a targeted population so as to understand whether the targeted group will more likely to participate in stock market investments. Based on the Cochran's formula, 408 participants are going to be surveyed regarding financial literacy and stock market investment. In evaluating the data collected the study uses statistical techniques such as regression and ANOVA. The findings are expected to contribute towards policy and programme development that would enhance access to financial services.

Key Words: Financial Literacy - Stock Market Participation - Low-Income Populations - Financial Inclusion - Education Programs

Introduction:

Understanding of personal finance has emerged as a crucial factor in the modern world and rising portend showing that people with better numeracy in financial matters are more likely to invest in the stock market (Lusardi & Mitchell, 2014). It is through stock market participation that one is able to build his/her own wealth but unfortunately little use is done by the low income earners majorly because of the following factors; poor financial literacy, lack of trust for financial institutions, and high risk taking propensity (Campbell, 2006). This leads to increase income disparity since the higher end of the economic stratum derives benefit from market expansion while the lower strata of the society is locked out from the opportunities that the stock market affords.

These barriers have however been dealt with through many financial literacy programs many of which if not all lack strong proof of having an improved stock market participation among the low income earners. Since these programs have the capability to reduce the gap in financial inclusion, efficiency of these programs should be assessed thoroughly. This study seeks to address this gap with the following objectives: To determine the effects of financial literacy programmes on the stock market for economically vulnerable groups. Hard data collected in this study is intended to positively advance the extant literature related to financial access and economic enfranchisement.

Review of Literature:

Research Studies have shown that financial literacy programs can change financial behaviours including, investment in the stock market among the low income earners. Lusardi and Mitchell (2014) posit that financial literacy influences financial decisions and people with high financial literacy are likely to take complicated financial decisions of investment like share market. According to existing literature, increasing the knowledge of a population through Financial literacy programs yields a positive and notable outcome in its members especially those in the… disadvantaged areas (Xiao & O'Neill, 2016). Further, financial literacy has been associated with enhanced financial literacy because it prepares the individuals so that they can find their ways in the market (Grohmann, 2018). Van Rooij, Lusardi, and Alessie (2011) points that low financial literacy is an important factor explaining why people do not participate in the stock market; it seems that people deny themselves the courage and consider stock market as too risky. Yet if those from low-income households gain financial knowledge then their likelihood of investing in the stock market will rise; Bernheim and Garrett (2003) noted that of workplace financial education programmes enhance long term saving and investment patterns. Klapper, Lusardi, and Panos (2013) also support the correlation between financial literacy and investment choice; they also argue that financial literacy does not only increase the level of participation, but the level of investment as well. Age, gender and education level for a specific population are other factors that may influence the success of financial literacy programs. Bucher-Koenen and Lusardi (2011) also pointed out that women and older persons have little or no affinity with the stock market even if they have undergone some form of financial literacy, which could imply that authoritative efforts must be achieved to help such groups. Consequently, there is a possibility of using the structural theory to proselytize the notion that financial literacy programs have the potential of reducing economic disparities by enabling low income individuals to participate actively in the uptake of stocks in the market.

Statement of the Problem:

Though such programs are popular, it is still unclear whether these would help in rate of investments in the stock market among the low-income earners. This paper aims at evaluating if these educational interventions would imply to increased market participation which could enhance wealth creation thus improving financial access to the economically needy persons.

Research Gap:

While there has been increasing numbers of research papers done on financial literacy, little research has been done to evaluate the effect that financial education programs have on low income communities and their ability to participate in the Stock Market. This study therefore seek to fill this gap by exploring the relationship between financial literacy interventions and real

market participation among the targeted groups.

Research Questions:

- Are there increased tendencies of market stock participation among the participants of financial literacy programs than those who did not participate in the programs?
- Is there any strong relationship between the investors' level of financial knowledge and the number of investments made in the stock market?
- To what extent do age, gender, education, and other demographic variables moderate the Stock Market Involvement of financial literacy programs?

Objectives:

- Examine the efficiency of financial literacy programs in enhancing stock market investments by the lower-income earners.
- Detect the relationship between increased financial knowledge and the level of stock market investments among low-income individuals.
- Check the moderating role of different demographic factors of the effect of financial literacy programmes in stock market investment.

Research Hypothesis:

- H1: Participants of financial literacy programs are more likely to engage in stock market activities than non-participants.
- H2: There is a positive correlation between financial literacy and the level of stock market investments among low-income individuals.
- H3: Demographic factors, such as age, gender, and education level, moderate the impact of financial literacy programs on stock market participation.

Research Methodology:

This research study will adopt a quantitative research approach which will combine quantitative questionnaires for data collection from 408 respondents computed using Cochran formula. It is proposed to use the survey questionnaire that will record the subjects' financial literacy, exposure to stock market investments, and other basic information. Financial literacy will be evaluated based on the financial knowledge tests similar to those used by previous studies while stock market participation will be as self-reported, engagement with different investment opportunities. The target sample will be randomly selected though use of the stratified random sampling in order to capture participants from different income groups, ages, and educational levels.

Data Analysis:

Multiple Data analysis will be carried out using statistical package for social sciences software (SPSS). Thus, with regards to the demographic and financial variables, descriptive statistics will first be used to inform the reader of their distribution amongst the sample. Chi Square Test will therefore be used in determining the effect of the financial literacy programs on the stock market. To compare the results of financial literacy levels and stock market investments the Pearson correlation analysis will be used. In moderating demographic variables the analysis of variance (ANOVA) test will be employed in evaluating the impact of financial literacy endeavours on market participation.

Chi Square Test employed to test First Hypothesis:

Table 1: Program Participation * Stock Market Participation Cross Tabulation

Count

		Stock Market Participation					Total
		No Involvement	Low Involvement	Moderate Involvement	High Involvement	Full Involvement	
Program Participation	Non Participants	1	2	12	24	33	72
	Participants	2	2	35	56	241	336
Total		3	4	47	80	274	408

Table 2: Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	19.719[a]	4	0.001
Likelihood Ratio	18.199	4	0.001
Linear-by-Linear Association	14.262	1	0
N of Valid Cases	408		
a. 4 cells (40.0%) have expected count less than 5. The minimum expected count is .53.			

Interpretation:

To determine the relationship between the program participation and the stock market participation, Chi-Square test was used. The analysis reveals that the two variables are related with the Pearson Chi-Square value equal 19. 719 and the p-value =. 001 (p <. 05). This implies that level of participation in the program has implications on the manner of participation in the stock markets. Moreover, when using the Likelihood Ratio test it yields significance (value = 18. 199, p =. 001) similar to the Pearson value. The Linear-by-Linear Association test which used to examine the trend of a variable across ordered categories was also significant with a value of 14. However, it was noted in the above table that 4 cells (40%) have an expected count of less than 5, which is a problem in the chi square test because they reduce the accuracy of the test due to lower frequency in large samples (N= 408). Hence, there is rather significant evidence of the fact that enhancing the level of attendees' financial literacy entices them to enhance the level of their involvement in the stock market.

Correlation Analysis to test Second Hypothesis:

Table 3: Correlations

		Financial Literacy	Stock Market Investment
Financial Literacy	Pearson Correlation	1	.567**
	Sig. (2-tailed)		.000
	N	408	408
Stock Market Investment	Pearson Correlation	.567**	1
	Sig. (2-tailed)	.000	
	N	408	408
**. Correlation is significant at the 0.01 level (2-tailed).			

Interpretation:

Pearson's correlation analysis was used to analyse the relationship between financial literacy and stock market investment with the 408 respondents. As depicted in the results the question that has been used as an index of financial literation has a.805 correlation (r) with stock market investment. 567 and p-value of. 000. This is an indication that there is a fairly good positive correlation between financial literacy and stock market investment, in other words, as the level of financial literacy rises, so does the extent of stock market investment. This indicates that there is a positive relationship between measures of burnout and measures of job satisfaction and the significance level of 0.01 indicates that this has high probability of not being due to chance. Therefore, it is clear that as the level of financial literacy increases the level of investment in the stock market also increases.

ANOVA to Test Third Hypothesis:

Table 4: Tests of Between-Subjects Effects

Dependent Variable: Stock Market Participation						
Source	Type III Sum of Squares	df	Mean Square	F	Sig.	Partial Eta Squared
Corrected Model	79.907[a]	11	7.264	16.499	0	0.315
Intercept	572.723	1	572.723	1300.799	0	0.768
Program Participation	66.244	4	16.561	37.614	0	0.276
Gender	0.052	1	0.052	0.117	0.732	0
Age	5.553	3	1.851	4.204	0.006	0.031
Educational Level	6.761	3	2.254	5.119	0.002	0.038
Error	173.472	394	0.44			
Total	8538	406				
Corrected Total	253.379	405				
a. R Squared = .315 (Adjusted R Squared = .296)						

Interpretation:

The ANOVA results also reveal that the model has significant of 31 %. Explaining 5% of the variance in stock market participation (R^2 =. 315, p <. 001); Program participation, Age and Education level were some of the significant predictors noted. Financial literacy program is highly significant in influencing stock market participation F = 37.614 p<.001, however it explains 27%. 6% of the variation, which means that people who attends such programs are much more likely to engage in the stock market activity. Education is also a significant predictor (F = 5. 119, p =. 002, contributing 3.% of the variance in the model. Percentage of the variance is 0.08 which means that people with increased level of education are more active in the stock market. Age has a rather small but still more profound impact (F = 4. 204, p =. 006); albeit 3. Percentage of 1%, it suggest that elderly people might be more involved in the stock market than young categories. Meanwhile, gender difference cannot influence stock market participation (F =. 117, p =. 732) proving that there is no difference between men and women regarding this factor. The intercept of the model suggests there exists a robust latent demand for participation in the stock market before accounting for the variables in the model aortic F = 1300. 799, p <. 001. Broadly then, the implication is that more should be done in terms of increasing the uptake of financial literacy programs as well as highlighting demographic factors such as education and age as drivers for engagement in stock market investment and that gender is inconsequential in this case for this sample.

Findings:

The study shows that the chi-square results of the attendance of the program and level of the engagement in the stock market are significant (Chi-Square = 19.719, p = 0.001). The findings indicate that participants in the financial literacy programmes are more likely to be of higher involvement in the stock market activities. The Pearson correlation between financial literacy and stock market investment is also significant (r = . 567, p < . 001), indicating a moderate-to-strong positive relationship: thus the level of financial literacy has a positive relationship with the level of investment in shares in the stock exchange. Also the results of the present study indicate that there is a significant relationship between financial literacy, educational level, age and stock market investment, where financial literacy, educational level, age and program participation explain 27. R^2 =. 06 and the obtained F was significant at. 001 level. Thus, there is evidence that relatively higher educational level and age increases stock market engagement while gender does not.

Suggestions:

Since financial literacy programmes have decided effects on stock market participation, it is suggested that these programmes be extended, especially to low-income households. It stipulated that level of education and age play important roles in outcome and therefore details programs for each level of education and age bracket. While developing and increasing the availability of such education for the above-referenced populations, policymakers need to focus on providing useful knowledge that can immediately enhance the individuals' participation in the financial markets. Further, efforts should be ongoing to assess and enhance the efficacy of financial literacy programs and to include other teaching methods including the use of internet in

training a larger population of people. It can therefore be said that gender differences in stock market investment do not seem very significant, although steps should be taken to make investment processes as gender sensitive as possible so that no particular groups are excluded from financial literacy.

Scope of Future Studies:

Further research could also explore the impact of financial literacy programmes with regards to their durability on the stock market activities since this particular study mainly captures the near-term part. A longitudinal study would therefore enable tracking of changes in financial behaviours overtime as well as evaluate the sustainability of these benefits of these programs. Future research could also look at other possibilities of investing in stocks in low-income neighbourhoods, which may include the attitudinal and normative constraints. Further, studies examining how other demographic variables; marital status, employment status or geographic location, moderates the relationship between financial literacy and stock market involvement would offer a better understanding of the population which is likely to benefit from such programmes most.

Conclusion:

The studies establish that financial literacy programs have a central role in facilitating the stock market investment among the lower-income group. Wald tests further confirmed the findings that educational attainment, age and gender had a positive and significant relationship with stock market involvement such that as the level of education increases and age also increases, stock market involvement also increases but the gender of the individual had no significant relationship with stock market involvement. Based on these findings it can be concluded that there is still a need for policymakers to emphasize on the Financial literacy programs as a key to financial education and market participation. However, in the future, it is necessary to develop these programs taking into consideration the age, as well as the educational level of the learners. The results of this argument concern the enhancement and elaboration of such programs to reach a higher level of financial literacy for desirable communities that have fewer chances to be involved in stock market activities and gain sustainable financial security.

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