International Journal of Research in Commerce and Management Studies

ISSN 2582-2292

Vol. 7, No. 02 Mar-Apr; 2025 Page. No. 561-572

To cite this article: Uma P T S (2025). A STUDY ON FINANCIAL LITERACY: A CRUCIAL TOOL IN COMBATING FINANCIAL MYOPIA WITH REFERENCE TO ERNAKULAM DISTRICT, International Journal of Research in Commerce and Management Studies (IJRCMS) 7 (2): 561-572 Article No. 383 Sub Id 696

A STUDY ON FINANCIAL LITERACY: A CRUCIAL TOOL IN COMBATING FINANCIAL MYOPIA WITH REFERENCE TO ERNAKULAM DISTRICT

Uma P T S

St. Albert's College (Autonomous), Ernakulam, India

DOI: https://doi.org/10.38193/IJRCMS.2025.7241

ABSTRACT

Financial Myopia refers to the tendency of individuals to focus on immediate benefits while neglecting long-term financial consequences. It is a form of cognitive bias where people prioritize immediate gratification over future financial stability, often leading to poor financial decision-making. The study was conducted to investigate the factors contributing to financial myopia, to identify myopic status of individuals, to test the association between demographic factor of age and financial myopia using Chi-Square testing and, to analyze the outcomes and steps to avoid financial myopia. Data for the study has been collected from both primary and secondary sources. Area of the study is limited to the respondents of Ernakulam district with the sample size of 100. Data collected has been analyzed and presented in the form of tables, pie chart and bar-graphs. The study concludes by identifying lack of financial literacy, instant access to credit, peer pressure and short-term gains as factors that contributes to financial myopic behavior. Majority of the respondents possess myopic behavior. The outcomes of financial myopia include debt accumulation, increased stress and anxiety, financial instability and, low or no savings. The Chi-Square Test proves that there exists a significant association between demographic factor of age and financial myopia. Being financially literate was found to be the best possible and effective solution to avoid financial myopia in future.

KEYWORDS: Financial Myopia, Financial Instability, Indian Families, Financial Literacy, Debt Accumulation.

INTRODUCTION

Money plays a fundamental role in every aspect of life. It serves as a medium of exchange, store of value and a measure of wealth, enabling individuals to meet their daily needs, save, plan for future and achieve financial stability. However, the way individuals manage their money significantly impacts their financial health. When it comes to financial decision making, individual's decisions are often guided by psychological biases, heuristics, emotions and feelings that leads to distress and insecurity. One such behavioral tendency is financial myopia.

Financial myopia is a type of financial personality trait. It is a tendency to focus on immediate financial benefits while neglecting its long-term consequences. In short, an individual who is financially myopic can see the present but is unable to see the future. Such individuals overvalue the rewards received today while undermines the price to be paid in future for its consequences. Similar is mentioned in the concept of hyperbolic discounting where individuals have a tendency to choose smaller soon rewards rather than longer later rewards. This bias is considered as a part of temporal myopia.

This short-sighted behavior results in impulsive spending, inadequate savings and poor financial planning, ultimately leading to financial distress. Financial distress is a state where individuals are unable to pay for bills and debts, and struggles to meet their financial obligations. Financial distress, if prolonged can escalate into financial insecurity, where individuals experience persistent financial instability, anxiety, tensions and inability to cope with unexpected financial emergencies.

Addressing these issues requires an essential tool- Financial literacy. Personal financial literacy is the ability to read, analyze, understand, manage and communicate personal financial conditions that affects a person's satisfaction towards income, consumption, assets and wealth. Financial literacy has a wider scope as it is considered as an outcome of financial education. In a rapidly evolving financial landscape, the need for financial literacy has never been more critical.

With rising cost of living, increasing debt burdens and unpredictable economic conditions, individuals must be equipped with knowledge and skills to make informed financial decisions.

2. STATEMENT OF THE PROBLEM

Financial myopia is a growing concern in personal finance. The Reserve Bank of India Report (2022) revealed that 77% of Indians do not adequately plan for their future, contributing to financial distress. Despite the growing emphasis on financial education, studies indicate that a significant portion of population lacks fundamental financial knowledge. According to the Global Financial Literacy Survey (2023), only 27% of Indian adults are considered financially literate, significantly lower than the global average of 33%. Due to lack of financial literacy, many individuals engage in impulsive financial decisions, neglect future consequences and struggle with financial distress. This short-sighted behavior of myopia can lead to increased and accumulated debt, poor savings and financial insecurity.

The study thereby focuses to investigate its causes, identify the myopic status of individuals, examines the influence of demographic factor of age, analyzes outcomes and proposes steps to mitigate short-sighted financial behavior.

3. OBJECTIVES OF THE STUDY

a. To investigate the factors contributing to financial myopia in individuals.
b. To identify the myopic status of individuals.
c. To examine the association between demographic factor and financial myopia.
d. To analyze the outcomes and steps to avoid financial myopia.

4. SIGNIFICANCE OF THE STUDY

Given the rapid economic growth and rising cost of living in Kerala, it is crucial to understand whether individuals make well-informed decisions or fall into financial myopia. In Ernakulam district, where this study is focused, financial literacy levels and their impact on financial myopia remain underexplored. The study thereby delves into gaining insights into the concept, promote sustainable financial well-being, reduce financial distress and encourage responsible financial behavior in the community. It encourages better financial education and decision making, fostering a more financially resilient society.

5. SCOPE OF THE STUDY

The study explores the crucial role of financial literacy in combating financial myopia- a behavioral tendency that leads individuals to prioritize immediate financial gratification over long-term stability, among individuals of Ernakulam district. The study categorizes respondents with myopic behavior based on three factors: impulsive financial decisions makers, preference for immediate rewards and lack of concerns for its future consequences. The study aims to identify key contributing factors of financial myopia, examine its association with demographic factor of age, analyze outcomes and provide potential steps to avoid financial myopia in future. The findings will benefit individuals, policymakers, educators and financial institutions by providing insights into improving financial education and promoting financial well-being. The study however, is limited to Ernakulam district and does not include a comparative analysis with other regions.

6. REVIEW OF LITERATURE

Alisya M Mazlan (2024) explores the idea of mindful consumption as a tactic for smart spending, highlighting the need of individual financial well-being. Study looks at possible tactics and resources that people may use to think before they act and make wise financial decisions.

Domingo P, A Farizo (2024) delves into the variables driving financial literacy of adult population. The analysis leads to the conclusion that different population groups experience different financial attitudes. Study recommends that activities to promote financial literacy should be tailored as per the unique needs of target groups.

International Journal of Research in Commerce and Management Studies

ISSN 2582-2292

Vol. 7, No. 02 Mar-Apr; 2025 Page. No. 561-572

Ruth Samantha H & Lusiana A (2024) looks at how digital financial literacy affects spending and saving behavior The findings demonstrate that digital financial literacy favorably influences saving and spending habits respectively. Furthermore, the impact of digital financial literacy on spending behavior varies amongst men and women and the impact of digital financial literacy on saving behavior is the same for men and women.

Payla M.A & Kavas Y.B (2023) indicate that financial literacy does not mediate between personality typologies but, has a substantial impact on compulsive and impulsive purchase behavior. Additionally, the tendency of individuals to save money is positively impacted by the rise in financial literacy. As a result, people are discouraged from engaging in impulsive and compulsive purchasing.

Robert Mesrob D.M (2023) describes financial literacy as a solution to bank marketing myopia. This study explores the potential advantages of increased financial literacy for banks and their customers. It also helps individuals to think before taking financial decisions so as to avoid future consequences. Customers wouldn't have to worry about being scammed by banks, and banks wouldn't need to be myopic.

J.M Lee, Sherman D Hanna & K.T Kim (2023) examined the relationship between myopic time discounting and financial security and found a negative correlation between the two. The findings of this study have implications for financial professionals, instructors, and researchers who wish to assist customers in enhancing their financial well-being.

Ram Kumar Mishra & M.S Mahapatra (2022) looks at the data to understand the financial relationships and surroundings inside the family. It also emphasizes the important knock-on effect that financial parenting has on well being. They suggest that promoting financial literacy among parents and guiding them about their role, can bring about a positive change in the financial behavior of generations to come.

Suhail Ahmed Bhat & Umer M.L (2022) explains that financial literacy has a substantial positive impact on both financial well-being and financial self-efficacy. It helps to assist institutions in educating students about personal finance management, including retirement planning and savings.

Suresh G (2021) looks into the influence of behavioral biases and financial literacy on investing decisions. He found that heuristic bias had a positive correlation with behavioral bias in decision-making. Heuristic biases are mental short cuts that make people take fast decisions without further thought. It is also added that investment choices are greatly influenced by an investor's level of financial literacy.

International Journal of Research in Commerce and Management Studies

ISSN 2582-2292

Vol. 7, No. 02 Mar-Apr; 2025 Page. No. 561-572

Gokhan Ozer & U Mutlu (2021) indicates that financial literacy and locus of control positively impact people's financial behavior. Furthermore, it has been found that individual's internal locus of control and financial behavior varies according to their level of financial literacy.

Trent, Robert J (2020) illustrates how financial myopia raises the danger to corporations. In particular, the analysis defines the term "financial myopia" and lists a number of unfavorable consequences that can arise from engaging in myopic behavior. There is a chance that each of these results will raise company risk.

J.D Jayaraman & Saigeetha J (2018) describes that financial literacy is an important but often ignored skill which is vital for young people. Their study examined the financial literacy of Indian high school pupils and discovered that they performed poorly on common financial literacy tests.

7. RESEARCH METHODOLOGY

Primary data collection:

Primary data was collected using a self-structured questionnaire containing both open-ended and close-ended questions.

Secondary data collection:

Secondary data was collected from published sources like websites, reports, and online databases inclusive of research articles.

Tools for data analysis:

• Representations - Pie charts, bar-graphs, tables and percentages.

• Hypothesis testing- Using Chi-Square Test (non-parametric test).

• Population and sample size: Population includes residents of Ernakulam district, out of which 100 samples were collected (N=100).

Sampling method used: Convenience sampling (non-probability sampling).

8. HYPOTHESIS

H_0 **:** There is no association between demographic factor of age and financial myopia

$\boldsymbol{H_1}$ **:** There is significant association between demographic factor of age and financial myopia.

9. LIMITATIONS OF THE STUDY

The scope of the study is limited to Ernakulam district only. As the sample size is limited, it may not represent the point of view of the whole. Since the area of study is limited to a single place, there may be a common way of responding. There is a possibility of respondents filling in random answers without reading the whole questionnaire. Any biased or false information provided by the respondent may affect the conclusion of the study.

10. DATA ANALYSIS AND INTERPRETATION

a. The factors contributing to financial myopia in individuals include instant access to credit, high levels of debt, peer pressure, lack of financial literacy and for short-term gains. Out of the samples collected, lack of financial literacy was found to be the major factor that contributed to financial myopia. The same is depicted in the bar diagram (figure.1) as shown below. (Source: Primary Data)

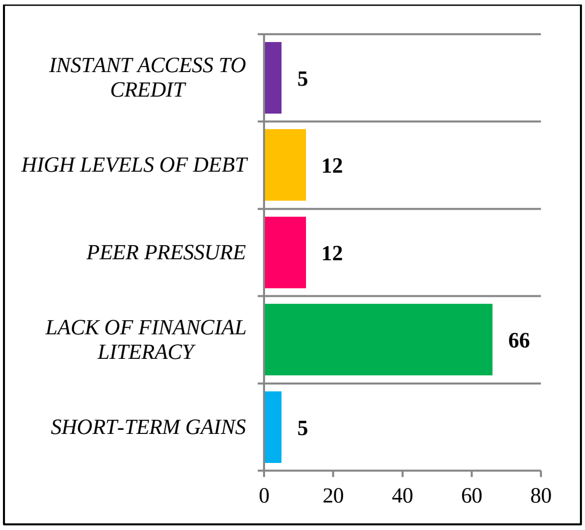

Figure.1 showing factors contributing to financial myopia

b. Myopic status of individuals – 65% of the respondents were found to be myopic and 35% of the respondents were found to be non-myopic. Majority of the respondents thus prefer immediate rewards, takes quick financial actions to achieve those rewards and does not consider its future consequences. Myopic status of individuals depicted using pie-chart (figure.2) as shown below. ((Source: Primary Data)

International Journal of Research in Commerce and Management Studies

ISSN 2582-2292

Vol. 7, No. 02 Mar-Apr; 2025 Page. No. 561-572

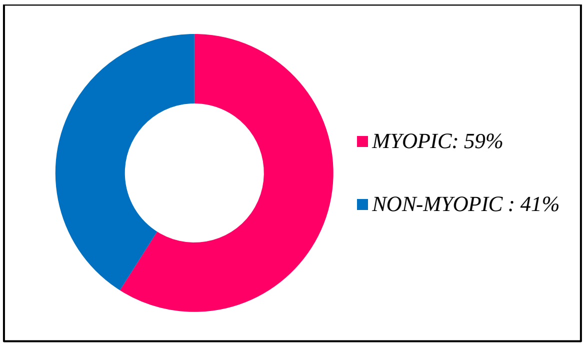

Figure.2 showing myopic status of individuals

c. Chi – Square Testing: was done to test the association between demographic factor of age and financial myopia. $\boldsymbol{H_0}$ **:** There is no association between demographic factor of age and financial myopia**.** $\boldsymbol{H_1}$ **:** There is significant association between demographic factor of age and financial myopia.

OSERVED FREQUNECY TABLE (Table.1)

AGE	MYOPIC	NON-MYOPIC	TOTAL
18 – 25	39	20	59
26 – 35	9	3	12
36 – 45	8	7	15
46 – 55	3	11	14
TOTAL	59	41	**100**

EXPECTED FREQUENCY TABLE (Table.2)

AGE	MYOPIC	NON-MYOPIC	TOTAL
18 – 25	34.81	24.19	59
26 – 35	7.08	4.92	12
36 – 45	8.85	6.15	15
46 – 55	8.26	5.74	14

TOTAL	59	41	**100**

Expected values calculated using the formula Eij = (Row Total * Column Total) / Grand Total

Chi – Square Calculation (Table.3)

$\boldsymbol{O}$	$\boldsymbol{E}$	$(\boldsymbol{O}-\boldsymbol{E}^2)/\boldsymbol{E}$
39	34.81	0.50
20	7.08	0.73
9	8.85	0.52
3	8.26	0.75
8	24.19	0.08
7	4.92	0.12
3	6.15	3.35
11	5.74	4.82
		$\sum\frac{(\boldsymbol{O}-\boldsymbol{E}^2)}{\boldsymbol{E}}=$ **10.87**

Calculated Chi-Square value = **10.87**

Table value @5% level of significance with degree of freedom 3 = **7.82**

INTERPRETATION: Since the Chi-Square value (**10.87**) is higher than the table value (**7.82**), we reject the null hypothesis ($\boldsymbol{H_0}$) and the alternate hypothesis ($\boldsymbol{H_1}$) is accepted. Thus, there exist a significant association between demographic factor of age and financial myopia. This means that financial myopia is influenced by age of people. The observed frequency distribution table also shows that the younger age group of individuals (**18-25**) tend to exhibit higher financial myopia. In the early adulthood, they have fewer financial obligations, new to managing finance, prioritize instant gratification over long term planning, may not have established habits of saving or budgeting leading to impulsive financial decisions and can head towards financial myopia.

International Journal of Research in Commerce and Management Studies

ISSN 2582-2292

Vol. 7, No. 02 Mar-Apr; 2025 Page. No. 561-572

d. The outcomes of financial myopia include debt accumulation, financial instability, increased stress and anxiety, and low/no savings. Debt accumulation is found to be the most possible outcome of financial myopic behavior. The same is depicted in the bar graph (figure.3) given below. (Source: Primary Data)

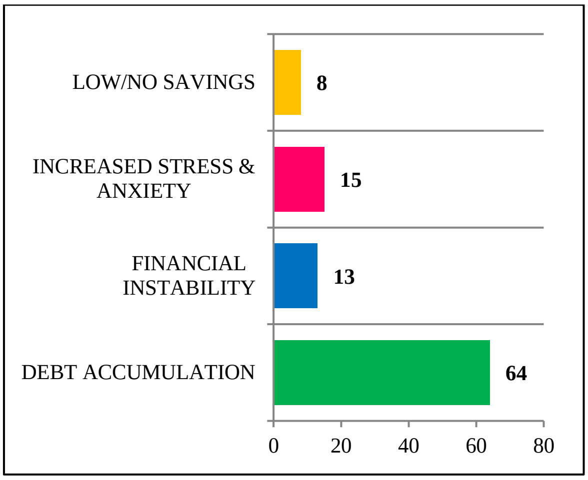

Figure.3 showing the outcomes of financial myopia

e. Steps to avoid financial myopia include being financially literate, reducing impulsive/excessive spending, setting well balanced financial goals and using financial planning tools and apps were found to be the steps that could be taken to avoid financial myopia in future. Out of the 100 respondents, 65 of the respondents have opted being financially literate as the step to avoid financial myopia, 16 respondents have opted for reducing impulsive/excessive spending, 12 of the respondents have opted for setting well balanced financial goals and 7 respondents have opted for using financial planning tools and apps as a step to avoid financial myopia in future. Being financially literate is found to be best possible and effective step to avoid financial myopia. The same is depicted in the bar graph (figure.4) given below. (Source: Primary Data)

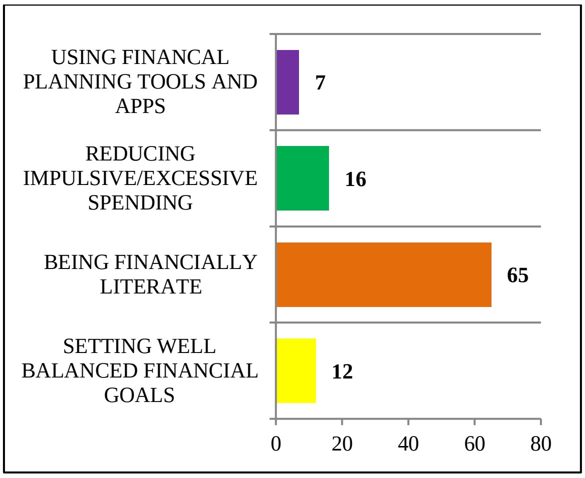

Figure.4 showing the steps to avoid financial myopia in future

11. CONCLUSION

The study focussed on financial myopia and addressed all four objectives with clear data analysis. Individuals who are financially myopic prefer immediate rewards, take impulsive financial actions to achieve those rewards but do not consider its future consequences. It was found that there exist a significant association between demographic factor of age and financial myopia. Younger individuals had a tendency to exhibit higher financial myopia than elderly adults. Lack of financial literacy, instant access to credit, peer pressure, short-term gains were some of the factors that contributed to financial myopia. It's possible outcomes include debt accumulation, increased stress and anxiety, financial instability and, low or no savings.

Being financially literate was found to be the best possible and effective solution to avoid financial myopia in future. Financial literacy would help individuals to know and understand how to save, budget, invest and spend wisely leading to informed decision making and a financially stabled future. By improving financial literacy, individuals can overcome financial myopia and develop a balanced approach to money management. Educating people on smart investing can help them make informed financial choices, ultimately ensuring long-term financial stability and security.

12. FUTURE SCOPE

As the observed frequency table of Chi-Square testing indicates that youngsters tend to exhibit greater financial myopic behaviour than other age groups, the study can be extended towards the identification and analysis of the main reasons on why young individuals tend to posses more myopic behaviour. Further studies can be conducted on how smart investing and savings can reduce debt accumulation and doesn't lead towards financial myopia in future.

REFERENCES

Journal Articles

[1] Alisya Mazni, Mazlan, Mindful Consumption: Smart Spending for Financial Wellness (May 28, 2024). Available at SSRN: https://ssrn.com/abstract=4844933 or http://dx.doi.org/10.2139/ssrn.4844933

[2] D. P., & Álvarez-Farizo, B. (2024). The drivers of adult financial literacy: Exploring the role of attitudes towards finance. European Journal of Education, 59, e12712. https://doi.org/10.1111/ejed.12712

[3] Gökhan, Mutlu, Ümmühan 1 orcid icon; Özer, Source: Kybernetes: The International Journal of Systems & Cybernetics, Volume 51, Number 3, 2021, pp. 1114-1126(13)Publisher: Emerald Group Publishing Limited DOI: https://doi.org/10.1108/K-01-2021-0062

[4] Jayaraman, J. D., & Jambunathan, S. (2018). Financial literacy among high school students: Evidence from India. Citizenship, Social and Economic Education, 17(3), 168-187. https://doi.org/10.1177/2047173418809712

[5] Lee, Jae Min and Kim, Kyoung Tae and Hanna, Sherman D., The Negative Association between Myopia and Financial Well-being as Moderated by Financial Knowledge (2022).The negative association between myopia and financial well-being as moderated by financial knowledge. Journal of Financial Counselling and Planning, accepted for publication, Available at SSRN: https://ssrn.com/abstract=4097775

[6] Mahapatra, M. S., & Mishra, R. K. (2022). Influence of Financial Parenting and Financial Coping Behaviour on Well-Being of Young Adults: A Study in India. Vision, https://doi.org/10.1177/09722629221087368

[7] Paylan, M. A., and Kavas, Y. B. (2022) A study on the mediating effect of financial literacy between personality traits and irrational buying behaviors. Cumhur. Üniver. Iktisadi Idari Bilimler Dergisi 23, 736–746. doi: 10.37880/cumuiibf.1092137

[8] Robert Mesrob ,Der Mesrobian. (2023). EXPLORING TRENDS OF FINANCIAL LITERACY RESEARCH: A BIBLIOMETRIC & TOPIC MODELING APPROACH. International Journal of Economics and Finance Studies. 15. 246-277. 10.34109/ijefs.202315213.

[9] Robert J. Trent, (2020) "How Financial Myopia Increases Corporate Risk," Journal of Applied

Business and Economics, Vol. 22, Iss.4, pp. 11-25

[10] Ruth Samantha Hamzah, Universitas Sriwijaya, Indonesia Mutiara Lusiana Annisa, Gender Issues in Digital Financial Literacy and Financial Behavior among Millennials. Doi: 10.21831/economia.v20i1.56529

[11] Singh, Kamakhya & Malik, Shruti. (2022). An empirical analysis on household financial vulnerability in India: exploring the role of financial knowledge, impulsivity and money management skills. Managerial Finance ahead-of-print 10.1108/MF-08-2021-0386

[12] SA. Bhat, U.M Lone, Impact of financial literacy on financial well-being: a mediational role of financial self-efficacy. J Financ Serv Mark 29, 122–137 (2024) https://doi.org/10.1057/s41264-022-00183-8

[13] Suresh G., (2021). Impact: of Financial Literacy and Behavioural Biases on Investment Decision-making. FIIB Business Review, 13 231971452110354. 10.1177/23197145211035481

Websites

[16]https://www.rbi.org.in/Scripts/AnnualReportPublications.aspx

[17] https://economictimes.indiatimes.com/

[18]https://gflec.org/initiatives/sp-global-finlit-survey/