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# FACTORS INFLUENCING PERSONAL FINANCIAL DECISIONS – A STUDY

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***Abstract***

*The analysis of the factors influencing personal financial decision by using Garrett Ranking Technique with eight factors namely Business Cycle or Employment Rate, Career Choice, Family Structure, age, health, inflation, population and financial policy reveals that Business Cycle or Employment Rate is ranked first in importance with mean score of 96.20. This is followed by Career Choice with mean score of 95.97. Family structure and Age were given third and fourth rank with mean scores of 74.07 and 71.40 respectively to the fact that based on number of members in family determines the saving capacity of an individual. During adulthood, individual may expend less and saves more compared with middle and old aged one. Health is assigned the fifth rank in importance with mean score 69.48. This is followed by inflation with mean score 68.91. The last factors were Population and financial policy with mean score of 65.32 and 64.65 respectively. As population increases the supply of labour is more; naturally demand for particular job may be low. In case of financial policy the tax and other charges payable to the government may be higher; it also affects financial decision of an individual.*

***Keywords: Personal Financial Decisions, Garrett Ranking Technique.***

## Introduction

Financial Planning takes the guesswork out of managing your finances and helps you understand the implications of each financial decision you make. Everyone has different goals, so it's important to have a unique plan that works for you and your financial situation, both now and in the future. Personal Finance is the Financial Management which an individual or a family unit performs to budget, save, and spend monetary resources over time, taking into account various financial risks and future life events. When planning personal finances, the individual would consider the suitability to his or her needs of a range of banking products (checking, savings accounts, credit cards and consumer loans) or investment (stock market, bonds, mutual funds) and insurance (life insurance, health insurance, disability insurance) products or participation and monitoring of individual - or employer-sponsored retirement plans, social security benefits, and income tax management.

## Review of related Study

**Ambrose Jagongo** and **Vincent** recommends that the investors need to analysis the investment factors carefully using the reasonable business knowledge before making an investment decision. The investors should also be able to interpret the market and economic indicators since they influence the performance of the share on the market. They should evaluate all the variables in the environment instead of considering only one variable. Investors do also need to diversify their investment in different companies by developing a portfolio of investments to minimize risks and maximize returns

**Nandagopal and M.Sathyapriya** investigated that factors that affecting personal financial decisions by examining the relationships among three factors including personal financial experience, financial thinking and financial knowledge. The study identified that overall financial decision of the students is affected by some of their demographic, educational and personality characteristics. Students need a little help with budgeting, understanding credit and skills to save for the future.

## Statement of the Problem

The circumstances or characteristics of our life influence our financial concerns and plans. What we want and need—and how and to what extent we want to protect the satisfaction of our wants and needs—all depend on how we live and how we would like to live in the future. While everyone is different, there are common circumstances of life that affect personal financial concerns and affect everyone's financial planning. It is important to Factors that influencing personal financial concerns like family structure, health, career choices, and age. Financial planning has to take into account conditions in the wider economy and in the markets that make up the economy. The labor market, for example, is where labor is traded through hiring or employment. Workers compete for jobs and employers compete for workers. In the capital market, capital (cash or assets) is traded, most commonly in the form of stocks and bonds (along with other ways to package capital). In the credit market, a part of the capital market, capital is loaned and borrowed rather than bought and sold. These and other markets exist in a dynamic economic environment, and those environmental realities are part of sound financial planning. In the long term, history has proven that an economy can grow over time, that investments can earn returns, and that the value of currency can remain relatively stable. In the short term, however, that is not continuously true. Contrary or unsettled periods can upset financial plans, especially if they last long enough or happen at just the wrong time in your life. Understanding large-scale economic patterns and factors that indicate the health of an economy can help you make better financial decisions.

**Objective**

The main objective of this paper is to study the factors (Internal and External) influencing in taking the Personal Financial Decisions.

**Methodology**

The study was conducted in Madurai City of Tamil Nadu with 150 respondents with a view to assess the factors that influencing individual financial decisions. Madurai is one of the impartment cities in south part of the state. It has historical heritage and value since centuries back. Agriculture and industries, educational university and institutions are there. It is the centre place of southern state for business and travel. The questionnaire was prepared and pre-tested in order to verify the validity of the data. Convenient sampling method was adopted to collect data. Secondary data were collected from magazines, journals, theses, books and websites. The data were collected during July to September of 2016.

**Analytical Tool**

The respondents were asked to rank some of the identified factors both internal and external in the order of importance. The order of merit assigned by the respondents was converted into scores by using Garrett's Ranking Technique. The per cent position for each rank was found using the following formula.

Per cent Position = (100(Rij-0.5)) / Nj

Where,
Rij=Rank given to ith factor by jth individual;
Nj=Number of Factors ranked by jth individual.

By referring the table given by Garrett, the per cent position estimated were converted into scores. Then for each factor, the scores of various respondents were added and divided by the number of respondents to arrive at the mean score. The mean scores thus obtained for each factor were arranged in a descending order. The factor with highest mean score was given the first rank, followed by second, third and so on.

**Results and Discussion**

The socio-economic profile were analysed and presented in Table 1

**Table 1 Demographic Profile of the sample respondents from Madurai City**

| Variable | Characteristics | Number of Respondents | Percentage |
|---|---|---|---|
| Gender | Female | 46 | 30.70 |
| | Male | 104 | 69.30 |
| Education | Diploma | 20 | 13.30 |
| | Degree | 118 | 78.70 |
| | Master Degree | 12 | 08.00 |
| Occupation | Business | 53 | 35.33 |
| | Employee | 47 | 31.33 |
| | Professionals | 29 | 19.33 |
| | Agriculturists | 12 | 08.00 |
| | Students | 09 | 06.00 |

It could be observed from Table 1 that the gender compositions of sample respondents are 30 percent and 70 percent of Female and Male respectively. Regarding Education Degree holders were comparatively more (78.70 percent) than Diploma and Master Degree. In case of occupation, Business constituted 35.33 percent higher than that of Employee, Professionals, Agriculturists and Students.

**Factors influencing Personal Financial Decisions**

Factors that influence the personal financial decisions internally are family structure, health, career choices, and age.

***Family Structure***

Marital status and dependents, such as children, parents, or siblings, determine whether you are planning only for yourself or for others as well. If you have a spouse or dependents, you have a financial responsibility to someone else, and that includes a responsibility to include them in your financial thinking. You may expect the dependence of a family member to end at some point, as with children or elderly parents, or you may have lifelong responsibilities to and for another person.Partners and dependents affect your financial planning as you seek to provide for them, such as paying for children's education. Parents typically want to protect or improve the quality of life for their children and may choose to limit their own fulfillment to achieve that end.

Providing for others increases income needs. Being responsible for others also affects your attitudes toward and tolerance of risk. Typically, both the willingness and ability to assume risk diminishes with dependents and a desire for more financial protection grows. People often seek protection for their income or assets even past their own lifetimes to ensure the continued well-being of partners and dependents. An example is a life insurance policy naming a spouse or dependents as beneficiaries.

***Health***

Your health is another defining circumstance that will affect your expected income needs and risk tolerance and thus your personal financial planning. Personal financial planning should include some protection against the risk of chronic illness, accident, or long-term disability and some provision for short-term events, such as pregnancy and birth. If your health limits your earnings or ability to work or adds significantly to your expenditures, your income needs may increase. The need to protect you against further limitations or increased costs may also increase. At the same time your tolerance for risk may decrease, further affecting your financial decisions.

***Career Choice***

Your career choices affect your financial planning, especially through educational requirements, income potential, and characteristics of the occupation or profession you choose. Careers have different hours, pay, benefits, risk factors, and patterns of advancement over time. Thus, your financial planning will reflect the realities of being a postal worker, professional athlete, commissioned sales representative, corporate lawyer, freelance photographer, librarian, building contractor, tax preparer, professor, Web site designer, and so on. For example, the careers of most athletes end before middle age have higher risk of injury, and command steady, higher-than-average incomes, while the careers of most sales representatives last longer with greater risk of unpredictable income fluctuations. Most people begin their independent financial lives by selling their labor to create an income by working. Over time they may choose to change careers, develop additional sources of concurrent income, move between employment and self-employment, or become unemployed or reemployed. Along with career choices, all these changes affect personal financial management and planning.

***Age***

Needs, desires, values, and priorities all change over a lifetime, and financial concerns change accordingly. Ideally, personal finance is a process of management and planning that anticipates or keeps abreast with changes. Although everyone is different, some financial concerns are common to or typical of the different stages of adult life. Analysis of life stages is part of financial planning. At the beginning of your adult life, you are more likely to have no dependents, little if any accumulated wealth, and few assets. (Assets are resources that can be used to create income, decrease expenses, or store wealth as an investment.) As a young adult you also are likely to have comparatively small income needs, especially if you are providing only for yourself. Your employment income is probably your primary or sole source of income. Having no one and almost nothing to protect, your willingness to assume risk is usually high. At this point in your life, you are focused on developing your career and increasing your earned income. Any investments you may have are geared toward growth. As your career progresses, income increases but so does spending. Lifestyle expectations increase. If you now have a spouse and dependents and elderly parents to look after, you have additional needs to manage. In middle adulthood you may also be acquiring more assets, such as a house, a retirement account, or an inheritance. As income, spending, and asset base grow, ability to assume risk grows, but willingness to do so typically decreases. Now you have things that need protection: dependents and assets. As you age, you realize that you require more protection. You may want to stop working one day, or you may suffer a decline in health. As an older adult you may want to create alternative sources of income, perhaps a retirement fund, as insurance against a loss of employment or income. Early and middle adulthoods are periods of building up: building a family, building a career, increasing earned income, and accumulating assets. Spending needs increase, but so do investments and alternative sources of income. Later adulthood is a period of spending down. There is less reliance on earned income and more on the accumulated wealth of assets and investments. You are likely to be without dependents, as your children have grown up or your parents passed on, and so without the responsibility of providing for them, your expenses are lower. You are likely to have more leisure time, especially after retirement. Without dependents, spending needs decrease. On the other hand, you may feel free to finally indulge in those things that you've "always wanted." There are no longer dependents to protect, but assets demand even more protection as, without employment, they are your only source of income. Typically, your ability to assume risk is high because of your accumulated assets, but your willingness to assume risk is low, as you are now dependent on those assets for income. As a result, risk tolerance decreases: you are less concerned with increasing wealth than you are with protecting it.

Factors that influence personal financial decisions other than internal are Business Cycles, Employment rate, GDP, Population and Inflation.

***Business Cycles***

An economy tends to be productive enough to provide for the wants of its members. Normally, economic output increases as population increases or as people's expectations grow. An economy's output or productivity is measured by its gross domestic product or GDP, the value of what is produced in a period. When the GDP is increasing, the economy is in an expansion, and when it is decreasing, the economy is in a contraction. An economy that contracts for half a year is said to be in recession; a prolonged recession is a depression. The GDP is a closely watched barometer of the economy over time; the economy tends to be cyclical, usually expanding but sometimes contracting. This is called the business cycle. Periods of contraction are generally seen as market corrections, or the market regaining its equilibrium, after periods of growth. Growth is never perfectly smooth, so sometimes certain markets become unbalanced and need to correct them. Over time, the periods of contraction seem to have become less frequent; the business cycles still occur nevertheless.

There are many metaphors to describe the cyclical nature of market economies: "peaks and troughs," "boom and bust," "growth and contraction," "expansion and correction," and so on. While each cycle is born in a unique combination of circumstances, cycles occur because things change and upset economic equilibrium. That is, events change the balance between supply and demand in the economy overall. Sometimes demand grows too fast and supply can't keep up, and sometimes supply grows too fast for demand. There are many reasons that this could happen, but whatever the reasons, buyers and sellers react to this imbalance, which then creates a change.

***Employment Rate***

An economy produces not just goods and services to satisfy its members but also jobs, because most people participate in the market economy by trading their labor, and most rely on wages as their primary source of income. The economy therefore must provide opportunity to earn wages so more people can participate in the economy through the market. Otherwise, more people must be provided for in some other way, such as a private or public subsidy (charity or welfare). The unemployment rate is a measure of an economy's shortcomings, because it shows the proportion of people who want to work but don't because the economy cannot provide them jobs. There is always some so-called natural rate of unemployment as people move in and out of the workforce as the circumstances of their lives change—for example, as they retrain for a new career or take time out for family. But natural unemployment should be consistently low and not affect the productivity of the economy. Unemployment also shows that the economy is not efficient, because it is not able to put all its productive human resources to work. The employment rate, or the participation rate of the labor force, shows how successful an economy is at creating opportunities to sell labor and efficiently using its human resources. A healthy market economy uses its labor productively, is productive, and provides employment opportunities as well as consumer satisfaction through its markets.

**Inflation**

Inflation is one of the important factors that influence personal financial decisions as it decides the purchasing power of the people when the price is normally high. Economical characteristics are revealed and individual may not have sufficient fund to purchase.

**Population**

Population is one of the factors that influence personal financial decisions. Employment is measured with availability of jobs and skill set to do a task. Based on the level of population the skilled labour may be taken and utilized. On the availability of employment side, the more population gives more supply which yields less income level. In populated country like India, China population is also one of the deciding factors.

Based on the data analysed, the results are presented in Table 1

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**Table 1 Internal Factors influencing Personal Financial Decisions**

| S.No. | Factor | Garrett Rank Mean Score | Rank |
|---|---|---|---|
| 1. | Business Cycle / Employment Rate | 96.20 | I |
| 2. | Career Choice | 95.97 | II |
| 3. | Family Structure | 74.07 | III |
| 4. | Age | 71.40 | IV |
| 5. | Health | 69.48 | V |
| 6. | Inflation | 68.91 | VI |
| 7. | Population | 65.32 | VII |
| 8. | Economical Policy | 64.65 | VIII |

Source: Primary Data

It is observed form Table 1 that the analysis of the factors influencing personal financial decision by the respondents reveals that Business Cycle or Employment Rate is ranked first in importance with mean score of 96.20. Without booming business, people are not employed and there is no chance to earn more. This is followed by Career Choice with mean score of 95.97. This indicates that the personal income is determined by the nature of careers. Family structure and Age were given third and fourth rank with mean scores of 74.07 and 71.40 respectively to the fact that based on number of members in family determines the saving capacity of an individual. During adulthood, individual may expend less and saves more compared with aged one. Health is assigned the fifth rank in importance with mean score 69.48. It implies that proper health care is very much essential throughout the life to take care of the health from infections and seasonal diseases. This is followed by inflation with mean score 68.91. Price in market varies from time to time based on the demand and supply and also with purchasing capacity of an individual. The last factors were Population and financial policy with mean score of 65.32 and 64.65 respectively. As population increases the supply of labour is more; naturally demand for particular job may be low. In case of financial policy the tax and other charges payable to the government may be higher; it also affects financial decision of an individual.

## Conclusion

Effective financial planning depends largely on an awareness of how your current and future stages in life may influence your financial decisions. The analysis on the factors influencing personal financial decision by the respondents reveals that Business Cycle or Employment Rate is ranked first in importance with mean score of 96.20 among eight factors. This is followed by Career Choice with mean score of 95.97. Family structure and Age were given third and fourth rank with mean scores of 74.07 and 71.40 respectively to the fact that based on number of members in family determines the saving capacity of an individual. The last factors were Population and financial policy with mean score of 65.32 and 64.65 respectively.

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