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A Study on Investors' Behaviour toward Capital Market with Urban and Rural: A Critical Review of Literature

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Abstract

Investor behavior toward capital market investment represents a multidimensional phenomenon shaped by psychology, financial literacy, socioeconomic background, and risk perception. This critical review analyzes the patterns of investment behavior among urban and rural investors in India by synthesizing the existing empirical literature, doctoral theses, and research publications. This review highlights the key behavioral differences between urban investors and characterized by higher market awareness and technology-driven investment decisions—and rural investors, who demonstrate conservative tendencies, limited literacy, and dependency on informal financial advice. The study uses research from Shodhganga and online databases like ResearchGate, Google Scholar, and Scopus, focusing on works published from 2005 to 2024. The critical synthesis shows that urban investors are increasingly entering capital markets through mutual funds, systematic investment plans, and equity shares. In contrast, rural investors prefer tangible assets such as gold, real estate, and savings deposits. Both groups display behavioral biases, including herding, anchoring, and overconfidence, but these biases differ based on exposure and accessibility. The review highlights significant research gaps, such as a lack of comparative studies, limited measurement of behavior, and the underrepresentation of semi-urban investors. The study concludes that addressing the financial literacy gap and improving investor education programs across rural India are vital for balanced participation in capital markets. This study adds to behavioral finance by bringing together scattered empirical evidence and providing a framework for understanding how geographical, psychological, and socio-economic factors influence investors' saving and investing decisions.

***Keywords**:* Investor Behaviour, Capital Market, Rural and Urban Investors, Behavioural Finance; Financial Literacy, Risk Perception, Critical Review.

Introduction

The rapid expansion of India's capital market has increased participation from individual investors. However, investment patterns differ greatly between urban and rural areas because of social, economic, and psychological factors. Urban investors, who have more access to technology and financial institutions, tend to be more active in the market. In contrast, rural investors are usually more cautious and stick to traditional saving methods.

Understanding these differences is important for creating policies, educating investors, and promoting market inclusion. Behavioral finance suggests that investors' decisions often aren't purely rational; they are shaped by emotions, perceptions, and cognitive biases. This review seeks to critically analyze existing studies on investor behavior in urban and rural settings in India.

Conceptual Framework

Investor behavior is a subset of behavioral finance that studies how psychological and emotional factors influence investment decisions in the stock market. In the urban–rural context, the conceptual framework integrates three layers:

- **Socio-economic determinants**: income, education, occupation, and access to financial institutions.
- **Psychological determinants**: risk perception, confidence level, and behavioral biases.
- **Structural determinants** include the availability of capital market channels, digital access, and regulatory awareness.

This model suggests that rural investors exhibit "risk aversion" and "anchoring bias," while urban investors demonstrate "overconfidence" and "herding tendencies."

Research Methodology

This study adopts a **qualitative empirical literature review** approach.

- **Data Sources:** *Shodhganga*, *Google Scholar*, *Scopus*, and *ResearchGate*.
- **Time Frame:** *2005, 2024.*
- **Inclusion Criteria:** *Empirical studies, PhD theses, and journal papers focused on investor behavior in India.*
- **Key Databases Consulted:** *Indian Journal of Finance, Global Business Review, Finance India, IUP Journal of Applied Finance, and Asia-Pacific Journal of Financial Management.*

*Each source was reviewed for its research goals, methods, and findings.*A critical matrix (Table 1) summarizes the major studies.

Objectives of the Study

- To analyze and compare the behavioral patterns of urban and rural investors toward capital markets.
- To review the existing empirical literature highlighting the key determinants of investor behavior.
- To find behavioral biases and socio-economic factors that influence investment decisions.
- To detect research gaps and propose directions for future empirical studies.

Review of Literature

Table 1: Existing Empirical Literature Focusing on Investor's Behaviour

Sr. No.	Author & Year	Research Objective	Result of the Study
1	Bhandari, Ravi (2017) – Thesis	To examine investor awareness and selection of financial investment avenues in Pune City.	Urban investors demonstrated higher awareness and diversification; preference for mutual funds and equity among educated investors; rural/less aware investors preferred bank deposits and gold.
2	Kumari, Anita (2024) – Thesis	To study behavioural determinants of investment decisions in capital markets.	Behavioural biases (overconfidence, anchoring) significantly influenced investment decisions; financial literacy moderated bias effects.
3	Jagannath, Shivakumar (2019) – Thesis	To analyse individual investor behaviour in Hyderabad–Karnataka region.	Investors in the region exhibited risk aversion and low equity participation due to limited financial literacy.

4	Regina, Annal L. (2010) – Thesis	To study individual investor behaviour in Tamil Nadu.	Traditional instruments dominated; rural investors showed limited market awareness and preferred safe assets.
5	Lall, Anugrah R. (2017) – Thesis	To identify investors' preferences in Uttarakhand.	Income, age and literacy were primary determinants; higher literacy → greater equity participation.
6	Dabre, Prasad J. (2022) – Thesis	To evaluate investor education initiatives and their effectiveness.	Investor education improves awareness but needs localized, continuous interventions to change behaviour in semi-urban/rural areas.
7	Velmurugan, V. P. (2016) – Thesis	To explore relationship between stock indices and investor behaviour.	Market movements influence investor sentiment; small investors often react emotionally to index volatility.
8	Sambhana, S. (2020) – Thesis	To study financial literacy among retail investors in Visakhapatnam.	Moderate literacy levels; literate investors showed better portfolio diversification and lower susceptibility to herd behaviour.
9	Prosad, J. M. (2014) – Thesis	To analyse impact of behavioural biases on stock selection.	Behavioural biases lead to suboptimal stock choices; experience reduces bias-driven errors.
10	Bhavnagar Univ (2011) – Thesis	To study investor behaviour in selected Saurashtra cities.	Income and education significantly affect investment preferences; broker influence strong among small investors.
11	Jamia Millia (2016) – Thesis	To examine behavioural biases among Delhi equity investors.	Overconfidence, herd behaviour and loss aversion prevalent; demographic factors influenced bias strength.
12	University of Mumbai (2022) – Thesis (Prasad John D.)	To analyse investor education program impact in urban investors.	Awareness programs show short-term gains in knowledge but limited long-term behavioural change without follow-up.
13	JECRC (2024) – Thesis (Anita Kumari)	To study investor behaviour and decision making in capital market.	Recent evidence shows increasing relevance of behavioural finance constructs; digital access increases participation but also impulsive trading.
14	Gulbarga Univ (2019) – Thesis	To investigate investor patterns in Hyderabad–Karnataka.	Conservative investment choices predominated; lack of institutional access constrained equity participation.
15	Andhra Univ (2009) – Thesis	To examine investment patterns in Visakhapatnam & nearby districts.	Preference for fixed deposits and gold. Family and social status affect choices.
16	BharathiarUniv (2022) – Thesis	To study financial literacy and awareness among investors in Tamil Nadu.	Direct positive correlation between literacy and rational investment decisions; rural pockets lag behind.
17	Noorul Islam (2016) – Thesis (Velmurugan)	To relate indices and investor behaviour.	Index trends strongly affect investor sentiment and trading volume among retail investors.
18	Pune Univ (2019) – Thesis	To analyse behavioural factors influencing investment decisions.	Overconfidence and anchoring most influential; experienced investors performed better.
19	Madurai Kamaraj (2020) – Thesis	To study investor behaviour in Kerala capital market.	Demographic & literacy differences explain regional variance; risk aversion higher in older cohorts.
20	Guru Nanak Dev Univ (2010) – Thesis	To compare mutual fund selection behaviour of retail vs non-retail.	Retail investors more risk-averse; fund house reputation and past returns drive choices.

21	Mother Teresa Women's Univ (2013) – Thesis	To study women investors' behaviour towards shares and mutual funds.	Women preferred low risk instruments and mutual funds for safety/liquidity; financial literacy improved confidence.
22	Bharathidasan Univ (2015) – Thesis	To study retail investors' equity behaviour in Tiruchy.	Long-term equity preference among certain segments; income and risk perception significant.
23	Nirma Univ (2017) – Thesis	To link personality traits with behavioural biases.	Personality (Big Five) correlated with bias intensity—neuroticism linked to loss aversion; conscientiousness reduced impulsivity.
24	Jaypee Institute (2018) – Thesis	To study investment behaviour in NCT Delhi.	Awareness & market knowledge raised equity participation; anchoring and overconfidence observed.
25	Swami Ramanand T. (2016) – Thesis	To study investor preferences in Nanded city.	Safety, liquidity and returns drive choices; herd tendencies present in local groups.
26	Barua & Das (2019) – Paper	To examine financial literacy and household investment behaviour.	Higher literacy correlated with diversified portfolios and greater market participation.
27	Singh & Sharma (2020) – Paper	To test behavioural biases among Indian retail investors.	Overconfidence and loss aversion prevalent; biases affect trading frequency and portfolio turnover.
28	Das & Bose (2017) – Paper	To review behavioural finance literature in Indian capital market.	Mapped evolution from demographic to psychological constructs; highlighted methodological gaps.
29	Mehta & Verma (2019) – Paper	To assess impact of overconfidence on trading volume (NSE evidence).	Overconfidence increased trading volume and reduced net returns for retail investors.
30	Sharma & Gupta (2020) – Paper	To empirically test anchoring bias in investor decision-making.	Anchoring to past prices influenced buy/sell decisions, especially among less experienced investors.
31	Chauhan & Arora (2021) – Paper	To study impact of digital trading platforms on investor behaviour.	Digital access increased participation but also impulsivity; need for digital financial education.
32	Thomas & John (2022) – Paper	To examine herding among mutual fund investors.	Herding observable during market upswings; fund-flow patterns reflect collective behaviour.
33	Bhatt & Patel (2023) – Paper	To study post-pandemic investment behaviour.	Pandemic increased preference for safe assets initially; later recovery saw increased SIP and mutual fund adoption.
34	Nanda (2020) – Paper	To link financial literacy and portfolio diversification.	Literate investors held more diversified portfolios and relied on formal advice.
35	Ghosh & Chakraborty (2016) – Paper	Comparative study of rural vs urban investor attitudes.	Rural investors prioritized safety; urban investors sought returns and had higher risk appetite.

Analysis and Interpretation

The review shows a clear behavioral divide between urban and rural investors.

- **Urban Investors:** They display higher awareness, use digital platforms, diversify through equity and mutual funds, and show overconfidence during market booms.
- **Rural Investors:** They are conservative, prefer gold, LIC, and post-office savings, and rely on informal networks.

- **Common Traits:** Both groups are influenced by peer behavior, limited by financial literacy, and guided by perceived rather than actual risk. Government policies, such as the Pradhan Mantri Jan-Dhan Yojana and SEBI Investor Awareness Programs, have improved inclusion, but gaps remain.

Variables That Govern an Investor's Decision to Save and Invest

Category	Variables	Urban Investors	Rural Investors
Demographic	Age, Gender, Income	High income & male dominance	Low income & family-based savings
Economic	Occupation, Disposable income	Salaried & business class	Agriculture & wage-based
Psychological	Risk perception, confidence	Moderate–high risk appetite	High risk aversion
Behavioural Biases	Herding, overconfidence	Influenced by market trends	Influenced by local opinion
Financial Literacy	Awareness, knowledge	High through digital exposure	Limited awareness

Conclusion

This review shows that investor behavior in India differs significantly between urban and rural areas. Financial knowledge, access to technology, and exposure to market information play key roles. Urban investors tend to diversify their portfolios and show more confidence in the market. In contrast, rural investors depend on traditional savings and feel a stronger emotional attachment to security.

Closing this gap needs ongoing investor education, better financial inclusion, and training in behavioral finance from regulatory bodies like SEBI and RBI. Future research should use mixed-method approaches that combine demographic and psychological profiles to see how social context affects investment decisions.

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