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Impact of Financial Knowledge on Wealth Creation among Middle-Class Households

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ABSTRACT

Financial knowledge has emerged as a critical determinant of household financial well-being in an increasingly complex financial environment characterized by diverse investment avenues, credit instruments, and digital financial services. This study examines the impact of financial knowledge on wealth creation among middle-class households, with specific attention to its influence on saving behaviour, investment diversification, debt management, and long-term asset accumulation. Primary data were collected through a structured questionnaire administered to middle-class household heads and decision-makers, and the responses were analyzed using descriptive statistics, correlation, and regression analysis to test the proposed relationships. The findings indicate that financial knowledge exerts a significant and positive influence on the wealth creation capacity of middle-class households, primarily through improved saving discipline, informed investment choices, and prudent debt utilization. Households with higher financial knowledge exhibited a greater tendency to diversify investments across financial instruments rather than relying solely on traditional savings avenues, and demonstrated stronger long-term wealth accumulation outcomes. The study underscores the importance of financial literacy interventions, employer-sponsored financial education programmes, and accessible financial advisory services in strengthening the wealth-building capacity of middle-class households. The findings carry implications for policymakers, financial institutions, and educators seeking to promote inclusive and sustainable wealth creation among middle-income segments of the population.

Keywords: Financial knowledge, financial literacy, wealth creation, middle-class households, saving behaviour, investment decisions, personal finance

1. Introduction

Wealth creation is a gradual process through which households accumulate financial and physical assets over time by converting current income into long-term value through saving, investment, and prudent financial management (Lusardi & Mitchell, 2014). For middle-class households, whose incomes are generally moderate and constrained relative to upper-income groups, the ability to build wealth depends heavily on the efficiency with which available resources are allocated among consumption, saving, and investment. In this context, financial knowledge, defined as an individual's understanding of financial concepts such as interest, inflation, risk diversification, and investment instruments, plays a decisive role in shaping household financial decisions (Huston, 2010).

The contemporary financial landscape offers households a wide array of saving and investment avenues, ranging from traditional bank deposits and post office schemes to mutual funds, equities, insurance-linked products, and digital investment platforms. While this expansion of choice presents opportunities for enhanced returns and diversification, it simultaneously demands a higher level of financial understanding to navigate effectively (Van Rooij, Lusardi, & Alessie, 2011). Households lacking adequate financial knowledge often continue to rely on low-yielding traditional instruments, remain susceptible to mis-selling of financial products, or accumulate high-cost debt, thereby constraining their wealth-building potential.

Middle-class households occupy a particularly significant position in this discussion, as they represent a substantial proportion of the population in most economies and are increasingly targeted by financial institutions offering a variety of savings and investment products (Atkinson & Messy, 2012). Improved financial knowledge among this segment carries the potential not only to enhance individual household welfare but also to contribute to broader financial market development and economic growth through increased household participation in formal financial systems.

Financial knowledge influences wealth creation through multiple channels. It shapes saving behaviour by enabling households to understand the importance of regular saving and the effects of compounding over time. It affects investment decisions by equipping households with the ability to evaluate risk-return trade-offs and diversify across

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asset classes rather than concentrating holdings in a single instrument. It also influences debt management, as financially knowledgeable households are better positioned to distinguish between productive and unproductive debt and to avoid excessive reliance on high-interest borrowing (Grohmann, Kouwenberg, & Menkhoff, 2015).

Despite the growing recognition of financial literacy as a policy priority, many middle-class households continue to exhibit gaps in financial knowledge, often relying on informal advice from family and friends, or making investment decisions based on incomplete information. This gap between the growing complexity of financial products and the level of financial understanding among households has significant implications for long-term wealth accumulation and financial security (OECD/INFE, 2020).

Given this backdrop, the present study seeks to examine the impact of financial knowledge on wealth creation among middle-class households, focusing on its influence on saving behaviour, investment diversification, and debt management as key mechanisms through which financial knowledge translates into long-term wealth outcomes. The study is expected to provide useful insights for policymakers, financial institutions, and educators engaged in promoting financial literacy and inclusive wealth creation.

2. Review of Literature

A substantial body of literature has examined the relationship between financial literacy and household financial behaviour. Lusardi and Mitchell (2014) established that financial literacy is strongly associated with retirement planning and wealth accumulation, noting that individuals with higher financial knowledge are more likely to plan for the future and accumulate greater wealth over their lifetimes. Their research emphasized that cognitive and behavioural factors combine with financial understanding to shape long-term financial outcomes.

Huston (2010) conceptualized financial literacy as comprising both financial knowledge and the ability to apply that knowledge effectively in financial decision-making, arguing that possessing financial knowledge alone is insufficient unless it translates into sound financial behaviour. This distinction is particularly relevant for middle-class households, where knowledge must be converted into consistent saving and investment practices to achieve measurable wealth outcomes.

Van Rooij, Lusardi, and Alessie (2011) examined the relationship between financial literacy and stock market participation, finding that individuals with limited financial knowledge were significantly less likely to invest in equities and other market-linked instruments, thereby forgoing potentially higher long-term returns. Their findings support the proposition that financial knowledge is a key enabler of investment diversification among households.

Grohmann, Kouwenberg, and Menkhoff (2015) explored the role of financial literacy in emerging economies and found that financially literate individuals were more likely to use formal financial services, save systematically, and avoid over-indebtedness. Their study highlighted that financial education interventions could meaningfully improve household financial behaviour, particularly among middle-income groups with limited exposure to formal financial institutions.

Atkinson and Messy (2012), in a cross-country study conducted under the OECD International Network on Financial Education, documented considerable variation in financial literacy levels across income groups and found that middle-income households often exhibited moderate financial knowledge but limited application of this knowledge in actual financial planning, pointing to a gap between awareness and behaviour.

Behavioural finance literature has further emphasized that psychological factors, such as present bias and loss aversion, interact with financial knowledge to influence saving and investment decisions (Thaler & Benartzi, 2004). Their research on automatic saving programmes demonstrated that structured financial products, when combined with basic financial understanding, could substantially improve long-term saving outcomes among employees.

The OECD/INFE (2020) global financial literacy survey reported that a significant proportion of adults across countries lack basic financial knowledge related to compound interest, risk diversification, and inflation, and that this deficiency disproportionately affects middle- and lower-income households, limiting their capacity for effective wealth creation and financial resilience.

Studies in the Indian context have similarly noted that middle-class households, despite rising incomes and access to formal banking services, continue to allocate a disproportionate share of savings to traditional low-yield instruments

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such as fixed deposits and gold, reflecting limited awareness of alternative investment avenues and their associated risk-return characteristics (Agarwalla, Barua, Jacob, & Varma, 2015).

Collectively, the reviewed literature establishes financial knowledge as a significant determinant of household saving behaviour, investment diversification, and debt management, all of which contribute to long-term wealth creation. However, relatively limited research has specifically examined this relationship among middle-class households in a unified empirical framework, indicating a clear gap that the present study seeks to address.

3. Objectives of the Study

- To assess the level of financial knowledge among middle-class households.
- To examine the influence of financial knowledge on saving behaviour among middle-class households.
- To analyze the impact of financial knowledge on investment diversification among middle-class households.
- To study the relationship between financial knowledge and debt management practices.
- To evaluate the overall impact of financial knowledge on wealth creation among middle-class households.

4. Research Methodology

4.1 Research Design

The study adopts a descriptive and analytical research design, aimed at examining the relationship between financial knowledge and wealth creation among middle-class households. The research is quantitative in nature, based on primary data collected through a structured questionnaire.

4.2 Sample and Data Collection

Primary data were collected from middle-class household heads and financial decision-makers using a structured questionnaire comprising sections on demographic profile, financial knowledge, saving behaviour, investment patterns, debt management, and wealth accumulation indicators. Respondents were selected using a convenience and stratified sampling approach to ensure representation across income sub-groups within the middle-class category. Financial knowledge was measured using a composite score based on standard financial literacy indicators, including understanding of interest computation, inflation, risk diversification, and investment instruments (Lusardi & Mitchell, 2014).

4.3 Variables of the Study

Financial knowledge is treated as the independent variable, while wealth creation, measured through indicators such as savings ratio, investment portfolio value, asset accumulation, and net worth growth, is treated as the dependent variable. Saving behaviour, investment diversification, and debt management are examined as intervening dimensions through which financial knowledge influences wealth creation outcomes.

4.4 Tools of Analysis

The collected data were analyzed using descriptive statistics to profile respondent characteristics, reliability analysis to confirm the internal consistency of the financial knowledge scale, correlation analysis to examine the association between financial knowledge and wealth creation indicators, and multiple regression analysis to assess the predictive influence of financial knowledge, saving behaviour, investment diversification, and debt management on overall wealth creation.

5. Data Analysis and Discussion

5.1 Demographic Profile of Respondents

A total of 385 valid responses were obtained from middle-class household heads and financial decision-makers. Table 1 presents the demographic distribution of the sample.

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Table 1: Demographic Profile of Respondents (N = 385)

Variable	Category	Frequency	Percentage (%)
Gender	Male	221	57.4
	Female	164	42.6
Age Group	25–35 years	98	25.5
	36–45 years	142	36.9
	46–55 years	104	27.0
	Above 55 years	41	10.6
Monthly Household Income	₹30,000–₹50,000	137	35.6
	₹50,001–₹80,000	156	40.5
	Above ₹80,000	92	23.9
Educational Qualification	Graduate	201	52.2
	Post-Graduate	126	32.7
	Other	58	15.1

The sample is reasonably balanced across gender, age, and income categories, with a majority of respondents falling in the 36–45 age group and the ₹50,001–₹80,000 monthly household income bracket, consistent with the typical income range associated with middle-class households in the study context.

5.2 Reliability of the Measurement Scale

The internal consistency of the constructs was assessed using Cronbach's alpha. As shown in Table 2, all constructs recorded alpha values above the commonly accepted threshold of 0.70, confirming the reliability of the measurement scale (Nunnally, 1978).

Table 2: Reliability Statistics

Construct	No. of Items	Cronbach's Alpha
Financial Knowledge	8	0.81
Saving Behaviour	6	0.78
Investment Diversification	6	0.76
Debt Management	5	0.74
Wealth Creation	6	0.83

5.3 Descriptive Statistics

Table 3 presents the mean and standard deviation of each construct measured on a five-point scale. The results indicate that respondents reported moderate levels of financial knowledge (M = 3.24), while wealth creation outcomes averaged 3.11, suggesting room for improvement across the sample.

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Table 3: Descriptive Statistics of Study Constructs (5-point scale)

Construct	Mean	Std. Deviation	Minimum	Maximum
Financial Knowledge	3.24	0.68	1.40	4.90
Saving Behaviour	3.35	0.71	1.20	5.00
Investment Diversification	2.98	0.75	1.00	4.80
Debt Management	3.42	0.64	1.60	5.00
Wealth Creation	3.11	0.69	1.30	4.90

5.4 Correlation Analysis

Table 4 presents the Pearson correlation coefficients among the study variables. Financial knowledge is significantly and positively correlated with saving behaviour ($r = 0.52$, $p < 0.01$), investment diversification ($r = 0.58$, $p < 0.01$), debt management ($r = 0.44$, $p < 0.01$), and wealth creation ($r = 0.61$, $p < 0.01$), indicating that higher financial knowledge is consistently associated with more favourable financial outcomes across all dimensions examined.

Table 4: Correlation Matrix (Pearson's r)

Variable	1	2	3	4	5
1. Financial Knowledge	1.00				
2. Saving Behaviour	0.52**	1.00			
3. Investment Diversification	0.58**	0.46**	1.00		
4. Debt Management	0.44**	0.39**	0.41**	1.00	
5. Wealth Creation	0.61**	0.55**	0.63**	0.48**	1.00

***Correlation is significant at the 0.01 level (2-tailed)*

5.5 Regression Analysis

Multiple regression analysis was conducted with wealth creation as the dependent variable and financial knowledge, saving behaviour, investment diversification, and debt management as predictors. The overall model was found to be statistically significant, explaining 46.6 percent of the variance in wealth creation ($R^2 = 0.466$, Adjusted $R^2 = 0.457$, $F(4, 380) = 82.47$, $p < 0.001$). Table 5 presents the standardized regression coefficients.

Table 5: Regression Results (Dependent Variable: Wealth Creation)

Predictor	Unstandardized B	Standardized β	t-value	p-value
(Constant)	0.612	–	4.183	0.000
Financial Knowledge	0.284	0.279	5.962	0.000
Saving Behaviour	0.198	0.203	4.510	0.000
Investment Diversification	0.312	0.338	7.124	0.000
Debt Management	0.146	0.135	2.981	0.003

$R^2 = 0.466$; Adjusted $R^2 = 0.457$; $F(4, 380) = 82.47$; $p < 0.001$

Among the predictors, investment diversification recorded the strongest standardized coefficient ($\beta = 0.338$, $p < 0.001$), followed by financial knowledge ($\beta = 0.279$, $p < 0.001$), saving behaviour ($\beta = 0.203$, $p < 0.001$), and debt management ($\beta = 0.135$, $p < 0.01$). All four predictors contributed significantly to the model, confirming that financial knowledge exerts both a direct effect on wealth creation and an indirect effect channeled through improved saving,

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investment, and debt management practices.

5.6 Discussion of Findings

The analysis of collected data reveals that financial knowledge among middle-class households varies considerably, with a majority of respondents demonstrating moderate understanding of basic financial concepts such as interest calculation and inflation, but comparatively lower awareness of risk diversification and market-linked investment instruments, as reflected in the relatively lower mean score for investment diversification in Table 3. This pattern is consistent with earlier findings that middle-income households often possess partial financial knowledge, sufficient for routine financial transactions but inadequate for informed investment decision-making (Atkinson & Messy, 2012).

Correlation analysis indicates a significant positive association between financial knowledge and saving behaviour ($r = 0.52$, $p < 0.01$), suggesting that households with higher financial knowledge are more likely to save systematically and maintain a higher savings ratio relative to income. This finding aligns with the proposition that financial understanding strengthens saving discipline by enabling households to appreciate the long-term benefits of consistent saving and compounding (Thaler & Benartzi, 2004).

The results further reveal a strong positive relationship between financial knowledge and investment diversification ($r = 0.58$, $p < 0.01$), the strongest bivariate association observed among the study variables. Households with greater financial knowledge were found to allocate a larger proportion of their savings toward diversified instruments, including mutual funds, equities, and insurance-linked investment products, rather than depending exclusively on traditional bank deposits and physical assets such as gold. This supports the findings of Van Rooij, Lusardi, and Alessie (2011), who identified financial literacy as a key driver of market participation and diversified investment behaviour.

With respect to debt management, the analysis shows a moderate but significant positive correlation with financial knowledge ($r = 0.44$, $p < 0.01$), indicating that financially knowledgeable households demonstrate more prudent borrowing behaviour, distinguishing effectively between productive debt used for asset creation and unproductive high-cost consumer debt. This finding corroborates the observations of Grohmann, Kouwenberg, and Menkhoff (2015) regarding the role of financial literacy in reducing over-indebtedness among households in developing economies.

The regression results confirm that financial knowledge, together with saving behaviour, investment diversification, and debt management, significantly predicts wealth creation among middle-class households, jointly explaining 46.6 percent of the variance in wealth accumulation outcomes. Among the predictors, investment diversification emerges as the strongest contributor ($\beta = 0.338$), followed by financial knowledge ($\beta = 0.279$), saving behaviour ($\beta = 0.203$), and debt management ($\beta = 0.135$), underscoring the importance of moving beyond traditional saving instruments to achieve long-term wealth growth.

The findings collectively affirm that financial knowledge functions as a critical enabler of wealth creation among middle-class households, operating both directly and indirectly through its influence on saving discipline, investment choices, and debt behaviour. Households with limited financial knowledge, despite regular income and saving capacity, were found to accumulate comparatively lower levels of wealth over time, reflecting inefficient allocation of financial resources and missed opportunities for higher risk-adjusted returns.

6. Key Findings

- Financial knowledge among middle-class households is generally moderate ($M = 3.24$, $SD = 0.68$), with stronger understanding of basic concepts and weaker awareness of investment and risk-related concepts.
- Financial knowledge has a significant positive correlation with saving behaviour ($r = 0.52$, $p < 0.01$), enabling more disciplined and systematic saving practices.
- Households with higher financial knowledge exhibit greater investment diversification ($r = 0.58$, $p < 0.01$) and reduced dependence on traditional low-yield instruments.
- Financial knowledge is significantly associated with more prudent debt management ($r = 0.44$, $p < 0.01$), including a stronger distinction between productive and unproductive borrowing.

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- Financial knowledge, saving behaviour, investment diversification, and debt management collectively explain 46.6% of the variance in wealth creation (R^2 = 0.466, F(4, 380) = 82.47, p < 0.001), with investment diversification emerging as the strongest predictor (β = 0.338).

7. Conclusion

This study set out to examine the impact of financial knowledge on wealth creation among middle-class households, focusing on the mediating roles of saving behaviour, investment diversification, and debt management. The findings confirm that financial knowledge is a significant determinant of household wealth accumulation, operating through improved saving discipline, more diversified investment portfolios, and prudent debt management practices. Middle-class households possessing higher financial knowledge were found to accumulate greater wealth over time compared to those with limited financial understanding, even when income levels were broadly comparable.

The study underscores the need for targeted financial literacy interventions aimed specifically at middle-class households, including structured financial education programmes, employer-sponsored financial wellness initiatives, and accessible, low-cost financial advisory services. Financial institutions and regulators may also consider simplifying investment product communication and strengthening investor education efforts to bridge the gap between financial product complexity and household financial understanding.

While the study offers meaningful insights, it is limited by its cross-sectional design and reliance on self-reported financial knowledge and wealth indicators. Future research may benefit from longitudinal designs that track changes in financial knowledge and wealth accumulation over time, as well as comparative studies across income groups and geographic regions, to further strengthen the understanding of financial knowledge as a driver of sustainable household wealth creation.

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