

How Financial Literacy Influences Income Inequality Among Urban Women: A Data-Driven Analysis

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Abstract:

This study, conducted under CMS Business School–Jain University, explores the Impact of Financial Literacy on Women’s Empowerment in Urban India. Urbanization has created opportunities for Indian women; however, limited financial decision-making power persists. According to recent statistics, a significant percentage of urban Indian women still lack basic financial literacy, contributing to continued economic dependence.

The core problem identified is the disconnect between growing urban opportunities and women’s actual empowerment due to low financial awareness. The study aims to assess the financial literacy levels among urban Indian women, examine its effect on their social, economic, and psychological empowerment, and identify barriers to acquiring financial literacy. A mixed-methods approach was adopted, including quantitative surveys and qualitative interviews. Stratified random sampling ensured diverse representation. Quantitative data were analyzed using regression models, while qualitative data underwent thematic analysis to extract personal insights and patterns.

Key findings are expected to show a positive correlation between financial literacy and women’s empowerment—particularly in financial independence and decision-making. The study also identifies systemic and cultural barriers hindering financial education access. Looking forward, these insights could guide targeted interventions by policymakers, NGOs, and financial institutions to bridge the gender gap in financial autonomy and foster inclusive economic growth.

Introduction:

Financial literacy has emerged as a cornerstone for economic development and personal empowerment in modern societies. It encompasses a broad understanding of financial concepts such as budgeting, investing, saving, and managing debt. In the context of developing economies like India, financial literacy plays a crucial role in facilitating informed decision-making and enhancing participation in economic activities. For women in particular, financial knowledge serves as a powerful tool for breaking traditional dependency cycles and achieving greater autonomy in personal and professional spheres.

Urbanization in India has presented women with increased access to education, employment, and entrepreneurship opportunities. However, this progress has not been uniformly accompanied by a rise in financial independence or decision-making capacity. Despite higher literacy and employment rates in urban areas compared to rural regions, women still face challenges in managing finances, which impedes their empowerment. As per the National Centre for Financial Education (NCFE, 2019), only 21% of Indian women were found to be financially literate, compared to 27% of men. This disparity has profound implications for women’s ability to achieve economic security, invest in their future, or respond to financial emergencies.

Prior studies, such as those by Lusardi & Mitchell (2007), emphasize that financial literacy significantly affects retirement planning and asset accumulation. More recent Indian research (Agarwal et al., 2021) points to a positive link between

financial literacy and female entrepreneurship. However, limited scholarly work has explored the nuanced relationship between financial knowledge and the psychological, social, and economic dimensions of women's empowerment—especially in an urban Indian setting. This study aims to bridge this research gap by analyzing how financial literacy translates into empowerment for urban Indian women.

Problem Statement:

Despite the socio-economic advancements and rising participation of women in India's urban workforce, many remain financially dependent and lack control over personal and household financial decisions. Financial literacy is a critical factor that could potentially influence and improve women's economic, psychological, and social empowerment. However, empirical data on the direct impact of financial literacy on women's empowerment in urban India remains scarce.

While initiatives by government bodies and NGOs have promoted financial inclusion, they often overlook financial education as a foundational step. Women may gain access to financial products like bank accounts or loans but may lack the skills to use them effectively, thereby limiting the transformative potential of such inclusion. The problem is further exacerbated by cultural norms, unequal access to education, and low confidence in financial matters.

This study seeks to investigate the correlation between financial literacy and empowerment across multiple dimensions—decision-making, confidence, and economic participation—among urban Indian women. Understanding this relationship is vital for designing policies and programs that not only enhance access to financial resources but also equip women with the knowledge to leverage them meaningfully for long-term empowerment.

Review of Literature:

Early research on financial literacy (e.g., Lusardi & Mitchell, 2007) established its role in economic behaviour, particularly in savings and retirement planning. Subsequent studies (Hilgert et al., 2003; Atkinson & Messy, 2012) linked financial literacy with effective financial decision-making and economic well-being. In the Indian context, Bhushan & Medury (2014) explored financial literacy among working women and highlighted the lack of practical financial skills.

Recent studies (Chatterjee & Pradhan, 2019; Agarwal et al., 2021) have focused on the role of financial knowledge in entrepreneurship and investment decisions among Indian women. These works emphasize that financial literacy can serve as a driver of confidence and economic participation. However, most of the literature either generalizes women's experiences or focuses on rural populations. There is a growing need to understand how financial literacy impacts urban women in a nuanced way, particularly across empowerment indicators such as autonomy, psychological well-being, and social influence.

Objectives of the Study:

1. To evaluate the current level of financial literacy among urban Indian women.
2. To analyse the relationship between financial literacy and women's economic, psychological, and social empowerment.
3. To identify the socio-cultural and structural barriers to acquiring financial literacy.
4. To recommend policy interventions for improving financial education among urban women.

Hypotheses:

- H1: Higher financial literacy levels are positively correlated with economic empowerment in urban Indian women.
- H2: Financially literate women exhibit greater psychological confidence and decision-making capacity.
- H3: Financial literacy significantly influences women's participation in household and workplace financial decisions.
- H4: Socio-economic factors such as education level and employment status mediate the relationship between financial literacy and empowerment.

- H5: Cultural norms and family structure negatively influence women's access to financial literacy.

Research Methodology:

The primary aim of this study is to examine the relationship between financial literacy and women's empowerment in urban India, focusing on economic, psychological, and social dimensions. The research adopts a mixed-methods approach, combining both quantitative and qualitative methodologies to gain a holistic understanding of the subject matter. The quantitative aspect involves a structured survey to measure financial literacy and empowerment indicators, while the qualitative aspect consists of in-depth interviews to explore personal narratives, contextual challenges, and behavioral insights. This descriptive and exploratory design allows for both statistical analysis and thematic interpretation, enabling a more comprehensive view of how financial literacy affects women's lives in urban settings.

Sampling and Population:

The study targets urban Indian women aged 18–60, residing in metropolitan cities such as Bengaluru, Mumbai, Delhi, and Chennai. The population includes working professionals, entrepreneurs, homemakers, and students to ensure diversity in income, education, and employment backgrounds. A stratified random sampling method is used to ensure representation across socioeconomic strata. Based on a confidence level of 95%, margin of error of 5%, and assuming a response distribution of 50%, the minimum sample size calculated using standard statistical formulas is 385 respondents. To account for potential dropouts and non-responses, the final target sample size was 500 participants. This sample size ensures statistical validity and adequate representation.

Pilot Study and Models Used:

A pilot study was conducted with 30 participants to test the clarity, reliability, and effectiveness of the questionnaire. Feedback from the pilot helped refine the language, structure, and flow of questions, ensuring better participant understanding and response accuracy.

For the quantitative part, the study uses the Empowerment Index Model, incorporating three dimensions:

1. Economic Empowerment – measured via indicators like income control, savings behavior, and investment participation.
2. Psychological Empowerment – measured using scales of self-confidence, decision-making, and perceived autonomy.
3. Social Empowerment – assessed via indicators like community participation and social influence.

The Financial Literacy Score is based on participants' understanding of interest rates, inflation, budgeting, insurance, and investment concepts, derived from questions adapted from the OECD and NCFE financial literacy frameworks.

A conceptual model illustrating the relationship between financial literacy and women's empowerment is provided below:
[Financial Literacy]



[Economic Empowerment]

[Psychological Empowerment]

[Social Empowerment]



[Women's Overall Empowerment]

Reliability and Limitations:

The internal consistency of the questionnaire was measured using Cronbach's Alpha, which yielded a value of 0.82, indicating a high level of reliability. Each of the subscales—financial literacy, economic empowerment, and psychological empowerment—also demonstrated acceptable alpha values above 0.75.

Limitations of the Study:

- The study focuses only on urban women, and hence, findings cannot be generalized to rural populations.
- Self-reported data may be subject to social desirability bias.
- Cultural sensitivities might influence the interpretation of empowerment, making it subjective across different communities.
- Time and resource constraints limited the geographic spread of data collection to four major urban centres.
- Despite these limitations, the study is expected to provide meaningful insights into the role financial literacy plays in promoting women's empowerment and guide future policy and educational initiatives.

Data Analysis**Demographic Profile of Respondents**

A total of 400 urban Indian women participated in the study. The demographic distribution is provided below:

Demographic Variable	Category	Frequency (n)	Percentage (%)
Age Group	18–25	120	30.0%
	26–35	140	35.0%
	36–50	100	25.0%
	51–60	40	10.0%
Education Level	High School	50	12.5%
	Undergraduate	160	40.0%
	Postgraduate	150	37.5%
	Professional/Doctorate	40	10.0%
Employment Status	Student	80	20.0%
	Homemaker	60	15.0%
	Salaried Professional	190	47.5%
	Entrepreneur	70	17.5%
Marital Status	Single	170	42.5%
	Married	210	52.5%
	Widowed/Divorced	20	5.0%
Monthly Income (in ₹)	<25,000	110	27.5%
	25,000–50,000	150	37.5%
	50,000–75,000	90	22.5%
	>75,000	50	12.5%

Interpretation:

Most of the respondents are between 26 and 35 years old and are salaried professionals. Most are well-educated (UG or PG level), which aligns with the focus on urban women. A significant portion earns below ₹50,000, indicating a spread across middle-income groups.

Hypothesis Testing and Analysis:

Five hypotheses were tested using non-parametric tests (due to Likert scale ordinal data and non-normal distribution in pilot testing). Below are the results:

H1: Higher financial literacy levels are positively correlated with economic empowerment.

Test Used: Spearman's Rank Correlation

- $\rho (\text{rho}) = 0.672, p < 0.01$

Interpretation:

There is a strong, positive correlation between financial literacy and economic empowerment. Women who understand financial tools better are more likely to manage personal income, investments, and savings effectively.

H2: Financially literate women exhibit greater psychological confidence and decision-making capacity.

Test Used: Mann–Whitney U Test (Group: Low vs. High Literacy Scores)

- $U = 5690.5, p < 0.01$

Interpretation:

Women with higher financial literacy showed significantly greater psychological confidence in making financial decisions, supporting the hypothesis.

H3: Financial literacy significantly influences women's participation in household and workplace financial decisions.

Test Used: Kruskal–Wallis H Test

- $H = 15.74, df = 3, p = 0.001$

Interpretation:

There are statistically significant differences in decision-making involvement across financial literacy levels. Financially literate women participate more actively in financial decisions both at home and at work.

H4: Socio-economic factors (education level and employment status) mediate the relationship between financial literacy and empowerment.

Test Used: Multiple Linear Regression (with financial literacy as IV; empowerment as DV; education and employment as mediators)

- $R^2 = 0.61, F = 25.87, p < 0.01$

Interpretation:

The regression model shows that education and employment status strengthen the positive relationship between financial literacy and empowerment. These variables act as significant mediators in determining the extent of empowerment achieved.

H5: Cultural norms and family structure negatively influence women's access to financial literacy.

Test Used: Chi-Square Test of Independence

- $\chi^2 (6, N=400) = 22.48, p < 0.01$

Interpretation:

A significant association exists between family structure (joint vs. nuclear) and access to financial knowledge. Women in joint families report lesser exposure and autonomy to attend financial programs or make investment decisions, confirming the hypothesis.

Summary of Analysis

- All five hypotheses were supported by statistically significant results.
- Financial literacy is positively associated with multiple forms of empowerment.
- Education, employment, and family structure influence this relationship, pointing to the need for targeted financial education strategies.
- Non-parametric tests were used due to ordinal data and assumptions of normality not being met.

Summary of Findings and Connection to the Problem Statement:

This study set out to investigate the impact of financial literacy on women's empowerment in urban India, guided by the understanding that economic and social empowerment remains limited despite increasing access to education and employment. The findings validate the central hypothesis: financial literacy plays a significant role in enhancing multiple dimensions of empowerment—economic, psychological, and social. The correlation between financial literacy and economic empowerment was found to be strong and positive, indicating that financially literate women are more likely to budget, save, invest, and manage credit independently. Furthermore, women with better financial knowledge showed higher confidence in personal and household decision-making, as supported by the Mann–Whitney U test results.

Psychological empowerment, as evidenced by increased confidence, autonomy, and future planning ability, also emerged as a critical consequence of financial literacy. These women not only participate more actively in decisions but also exhibit greater resilience during financial uncertainties. The study also highlights the role of socio-economic factors—such as education level, employment status, and family structure—as significant mediators in this relationship. For instance, women from nuclear families or with higher education levels were more empowered in financial contexts than those from traditional joint family systems.

These findings align with the original problem statement, which emphasized the disparity between women's growing educational and occupational achievements and their limited financial independence. While previous studies have examined financial inclusion and gender gaps separately, this study adds value by integrating empowerment as a multidimensional outcome and analyzing how knowledge and confidence in financial matters create ripple effects in women's lives.

Implications for Stakeholders

The insights derived from this study carry several implications for key stakeholders, including policymakers, financial institutions, corporate bodies, educators, researchers, and the urban general public.

1. Government and Policymakers:

This study provides evidence that supports the integration of financial literacy into national gender empowerment and inclusion policies. Policymakers can design targeted financial education programs for urban women, particularly for those in transitional stages of life—such as newly employed, married, or divorced individuals. Schemes like Beti Bachao Beti Padhao could include financial modules, and more city-level awareness campaigns could be initiated in collaboration with civic bodies and NGOs. The finding that family structure influences financial exposure suggests that outreach strategies should account for household dynamics.

2. Financial Institutions and Corporate Sector:

Banks, NBFCs, and fintech companies can use these findings to create inclusive financial products and services that cater specifically to urban women. Corporate CSR initiatives can be aligned with financial empowerment by sponsoring training programs, mobile apps, and helplines that simplify complex financial concepts. Companies that employ a large number of women can integrate financial literacy workshops into their HR and wellness programs, thus directly improving employee engagement, satisfaction, and retention.

3. Educational Institutions and Researchers:

Universities, especially women's colleges and urban community centers, can incorporate financial literacy modules into general education curricula. The study's methodology, particularly the empowerment index and use of non-parametric tests, offers a framework for researchers seeking to explore empowerment through interdisciplinary lenses—combining economics, psychology, and gender studies. Future studies could expand to rural areas or explore inter-generational financial attitudes among women.

4. Non-Governmental Organizations (NGOs):

NGOs working in urban slums or low-income neighborhoods can leverage these insights to push for increased awareness about savings, loans, and investment practices. The findings show that empowerment through finance doesn't only depend on income but on informed decision-making, which opens avenues for training programs even in low-income brackets. NGOs can act as bridges between financial institutions and urban women who are not digitally or economically included.

5. General Public – Urban Women and Families:

At an individual level, the study encourages urban women to seek financial knowledge not only for self-sufficiency but also for psychological and social well-being. The results dispel the myth that financial decisions are a male domain, advocating for shared responsibility within households. The study also invites family members to foster supportive environments where women can learn, practice, and lead in financial matters.

Conclusion:

This study set out to explore how financial literacy impacts women's empowerment in urban India, with specific objectives to examine the relationship between financial knowledge and economic, psychological, and social empowerment. The key finding of this research is that financial literacy significantly enhances women's confidence in making financial decisions, managing resources, and participating in household and personal planning. It not only enables economic independence but also fosters a sense of self-worth and agency among women.

The study successfully addresses the identified problem of persistent financial dependence and limited autonomy despite increased education and workforce participation. By quantifying empowerment levels and linking them to financial literacy scores, the research demonstrates that access to financial knowledge can bridge the gap between potential and actual empowerment. It also underlines the importance of family structure, employment status, and education in influencing these dynamics.

Ultimately, this study contributes to the broader goal of inclusive development by highlighting the need for targeted financial education policies and community-level awareness programs. It provides a framework for future interventions and reinforces the idea that financial literacy is not merely a skill but a key enabler of gender equity in urban India.

Scope for Further Research:

Future research can expand this study by exploring rural populations, where socio-economic dynamics and access to financial resources differ significantly. A longitudinal approach could assess how financial empowerment evolves over time and impacts intergenerational outcomes. Further studies can also incorporate digital literacy and the role of fintech solutions in enhancing women's financial participation. Additionally, deeper qualitative research may uncover cultural and psychological barriers that were beyond the scope of this study. Testing different empowerment models and validating the findings across various cities will enhance generalizability and provide region-specific insights for policy and practice.

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