

“Examining the Relationship Among Socio-Economic Status, Financial Wellbeing, and Financial Literacy: An SEM Model”

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Abstract

Financial wellbeing plays a significant role in country development by reducing poverty, promoting household stability, enabling social development, and boosting economic growth. Financial literacy may help individuals understand financial knowledge, make financial choices, and manage their resources more effectively. Income, education, and occupational background are included in Socio-Economic Status and act as significant indicators of financial wellbeing. This study investigates the relationship among Socio-Economic Status (SES), Financial Literacy (FL), and Financial Wellbeing (FW) in rural communities in Rajasthan, India. A total of 523 respondents were surveyed in Rajasthan. The data were collected via a questionnaire from rural individuals. Partial Least Squares Structural Equation Modelling (PLS-SEM) method was used to examine cause-and-effect relationships. Mediation analysis was used to check the impact of financial literacy on the relationship between Socio-Economic Status and Financial Wellbeing. The study examined financial wellbeing by integrating structural (socio-economic) factors with individual capabilities (financial literacy). The results revealed that socio-economic status has a considerable direct effect on individuals' financial wellbeing, a large effect of Socio-Economic Status on Financial Literacy and a significant relationship between financial literacy and financial wellbeing. Through the outcome, policymakers and development practitioners can work to enhance economic resilience in underprivileged communities.

Keywords: Financial Wellbeing, Socio-Economic Status, Financial Literacy, Financial Inclusion, Rural India, SEM Model

1. Introduction

In the present economic environment, where households face changing employment conditions, rising living costs, easy access to credit, and increasing financial services, maintaining financial wellbeing has become a significant concern. Financial wellbeing is an individual's ability to manage financial responsibilities, maintain confidence in future financial needs, and make decisions that contribute to a fulfilling quality of life. Socio-economic status (SES) includes income, education, and occupational background. SES acts as a significant indicator of financial wellbeing; it does not entirely dictate how individuals handle, and view their financial circumstances. Despite individuals from different socio-economic backgrounds, financial outcomes can differ significantly, indicating the existence of factors that influence or alter this relationship.

Financial literacy acts as a catalyst, empowering individuals to convert socio-economic resources to enhanced financial wellbeing. FL assesses financial priorities, considers future needs, maintains savings, and assesses financial risks when making decisions. FL significantly enhances financial understanding, access to services and management skills, and leads to better financial outcomes. (Debi et al., 2025). Demographic variables such as education, income, internet-enabled mobile phones and social media positively influence and impact household wellbeing and have significant relationships with socio-economic factors in driving household wellbeing. (Debi et al., 2025)

Grasping financial literacy becomes crucial where structural inequalities pose significant challenges. In rural India, government-initiated financial inclusion programs, such as the Pradhan Mantri Jan Dhan Yojna (PMJDY), have provided access to useful, affordable financial products and services. The research question arises: can understanding financial principles help close the divide between different socio-economic levels and overall financial health, and if so, in what ways?

This study investigates the impact of financial literacy on socio-economic status and financial wellbeing in rural areas of Rajasthan, India. Using primary data from a survey of 523 rural people and analysing it with Partial Least Squares

Structural Equation Modelling and mediation analysis, the research examines significant relationships among the measured variables (SES, FW & FL).

2. Literature Review

Financial inclusion is enhanced by financial literacy, especially among women, which is shaped by factors such as financial socialisation, financial awareness, and parental norms. The relationship between financial behaviours and financial literacy was also shaped by age and education (**Chetioui et al., 2025**). (**Lone et al., 2025**) Digital financial literacy (DFL) positively influenced financial well-being (FWB), with significant effects observed among male students and individuals demonstrating higher levels of religiosity. The investigation faced various constraints, such as targeted sampling, limited applicability across age groups, and a lack of consideration of other potentially important moderating factors.

(**Cai, 2025**) (Goyal & Kumar, 2021) examined the relationship between financial literacy, household debt, and mental health outcomes. Household debt acts as a mediator in the relationship between financial literacy and mental health, while financial literacy serves to lessen the negative effects of debt on mental health. (**Gafoor and Amilan, 2024**) Understanding finances significantly influenced overall financial health, with financial behaviour fully mediating this relationship, while financial attitude and self-efficacy played partial mediation roles. (**Antwi et al., 2024**) Financial concepts and related behaviours play a crucial role in determining financial well-being, with non-impulsive, future-oriented actions serving as a beneficial influence. (**Chaity et al., 2024**) studied the relationship between financial literacy and financial wellbeing. Key factors included financial knowledge, behaviour, attitude, self-efficacy, technical self-efficacy, and financial well-being. Financial literacy significantly impacts financial well-being, with financial behavior and self-efficacy mediating. (**Nieddu & Pandolfi, 2021**)

(**Katnic et al., 2024**) assessed financial literacy levels across various socio-demographic groups in Montenegro, contributing to the development of national financial literacy policies. Elevated consumer debt was associated with a lack of understanding of essential financial principles such as risk, return, and investment. (Goyal & Kumar, 2021)

(**Zhang and Chatterjee, 2023**) The investigation revealed a positive correlation between financial literacy and financial well-being, with financial stress serving as a significant mediator. (**Lusardi et al., 2023**) Socioeconomic status of parents influenced the overall relationship between financial education and financial literacy, but it did not affect the specific association between parental income and financial decision-making. (**Ndou, 2023**) Parental SES influenced the overall link between financial teaching and literacy, but not the relationship between parental income and financial decision-making.

(**Lone and Bhat, 2022**) Understanding financial concepts greatly enhanced overall financial health, with confidence in one's financial abilities acting as a partial intermediary factor. (**Lontchi et al., 2022**) revealed that financial inclusion positively influenced sustainable development, with financial literacy significantly mediating this relationship. The relationship between financial inclusion and sustainable development remained unchanged by social capital.

(**Badghish et al., 2022**) revealed that understanding financial concepts significantly enhanced individuals' confidence in managing their finances and their ability to handle financial challenges, while the process of learning about finances through social interactions played a crucial role in improving overall financial health.

(**Rahman et al., 2021**) Financial behaviour emerged as the most significant predictor of financial well-being, whereas financial stress exerted a notable negative influence. **West et al. (2021)** examined the impact of financial literacy on financial behaviours and pinpointed deficiencies in financial literacy education. (**West et al., 2021**) found that financial literacy has minimal influence on financial behaviours, but older age and higher income significantly improved financial well-being. However, financial stress did not negatively impact financial well-being.

3. Research Methodology

This study adopts a quantitative and cross-sectional research design. The study analyses the relationship among Socio-Economic Status (SES), Financial Literacy (FL), and Financial Wellbeing (FW). The data were gathered from 523 individuals in rural communities of Southern Rajasthan, such as Dungarpur, Banswara, Nagaur, and Hanumangarh districts, ensuring diverse representation across different socio-economic backgrounds. The instruments consisted of

validated multi-item scales assessed using a 5-point Likert scale. The study applied Partial Least Squares Structural Equation Modelling (PLS-SEM) using the software Smart PLS 4.0. Reliability and validity evaluation involved the analysis of outer loadings, Cronbach's alpha, composite reliability (CR), average variance extracted (AVE), and discriminant validity, utilising the Fornell-Larcker criterion and HTMT ratios. Through the application of path coefficients, R^2 , and f^2 values to assess both significant direct and indirect effects, encompassing the mediating and moderating roles of financial literacy.

4. Analysis and Discussion

4.1 Measurement Model Evaluation

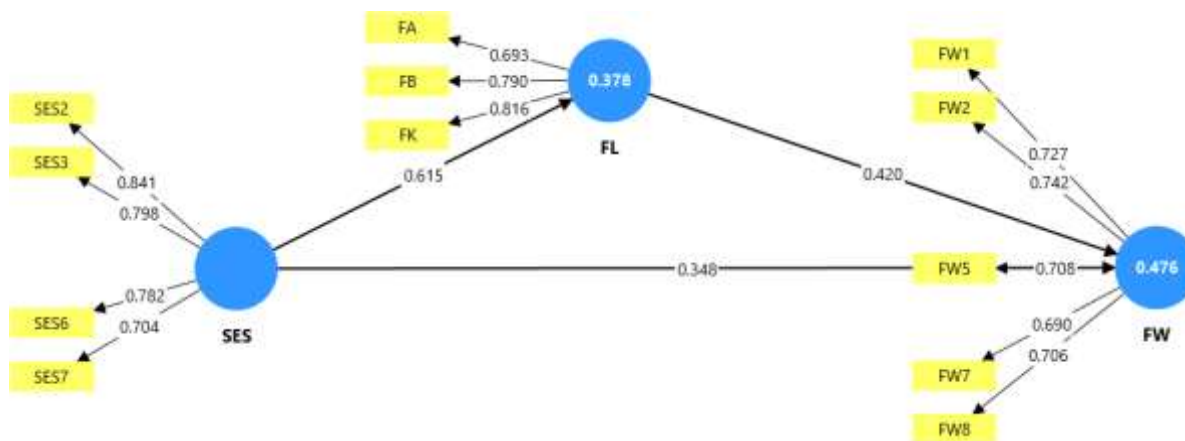


Figure 1: Graphical presentation of SEM

4.1.1 Indicator Reliability and Convergent Validity

Table 1 shows that FA was considered because the acceptable range is from 0.60 to 0.70, and AVE and CR meet satisfactory levels. Although the CR for Financial Literacy is marginally under 0.70, the AVE of 0.590 reinforces the construct's convergent validity.

Table 1: Validity and Reliability Table

Construct	Item code	Outer loadings	Cronbach's alpha	CR	AVE	VIF
financial literacy	FA	0.693	0.653	0.669	0.590	1.211
	FB	0.790				1.335
	FK	0.816				1.313
Financial Wellbeing	FW1	0.727	0.761	0.763	0.511	1.422
	FW2	0.742				1.427
	FW5	0.708				1.430
	FW7	0.690				1.341
	FW8	0.706				1.370
Socio-Economic Status	SES2	0.841	0.788	0.793	0.613	1.870
	SES3	0.798				1.690

	SES6	0.782				1.541
	SES7	0.704				1.348

All constructs revealed Average Variance Extracted (AVE) values exceeding 0.50: Financial Literacy (0.590), Financial Wellbeing (0.511), and Socio-Economic Status (0.613), validating that the constructs account for more than half the variance of their indicators.

4.1.2 Discriminant Validity

To assess discriminant validity, the Heterotrait-Monotrait Ratio of correlations was applied.

Table 2: Heterotrait----monotrait ratio (HTMT)

Variables	Heterotrait-monotrait ratio (HTMT)
FW <-> FL	0.891
SES <-> FL	0.842
SES <-> FW	0.778

Table 3: Fornell-Larcker criterion

	FL	FW	SES
FL	0.768		
FW	0.634	0.715	
SES	0.615	0.606	0.783

HTMT values are Financial Literacy and Financial Wellbeing (0.891), Socio-Economic Status and Financial Literacy (0.842), and Socio-Economic Status and Financial Wellbeing (0.778). The HTMT value between Financial Literacy and Financial Wellbeing is nearly 0.90, yet it stays within acceptable boundaries, indicating only slight conceptual overlap.

4.2 Structural Model Evaluation

The structural model assesses the application of path coefficients, t-statistics, p-values, coefficient of determination (R^2), effect size (f^2), and mediation analysis.

4.2.1 Path Coefficients and Effect Sizes

The model showed significant explanatory capability, and analysis revealed that Socio-Economic Status was a strong predictor of Financial Literacy ($\beta = 0.615$, $t = 23.874$, $p < .001$), exhibiting a large effect size ($f^2 = 0.608$) and a notable R^2 value of 0.378. The result indicates that almost 38% of the variation in Financial Literacy can be attributed to individuals' socio-economic circumstances.

Moreover, Financial Literacy played a crucial role in determining Financial Wellbeing ($\beta = 0.420$, $t = 12.049$, $p < .001$), exhibiting a moderate effect size ($f^2 = 0.209$). Furthermore, the analysis revealed that Socio-Economic Status significantly influenced Financial Wellbeing ($\beta = 0.348$, $t = 9.881$, $p < .001$), indicating a small-to-moderate effect size ($f^2 = 0.143$). The R^2 value for Financial Wellbeing was 0.476, suggesting that 47.6% of its variance was accounted for by the interplay of Financial Literacy and Socio-Economic Status.

Table 4: Path Coefficients Table

	Original sample (O)	Sample mean (M)	Standard-deviation (STDEV)	T -statistics (O/STDEV)	P - values	f^2	R^2	Hypothesis
FL -> FW	0.42	0.421	0.035	12.049	0	0.209		Significant, medium effect
SES -> FL	0.615	0.616	0.026	23.874	0	0.608	0.378	Significant, large effect

SES -> FW	0.348	0.348	0.035	9.881	0	0.143	0.476	Significant, small-medium effect
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The results support previous studies indicating that socio-economic background plays a crucial role in shaping financial knowledge and behaviour (Atkinson & Messy, 2012), which subsequently affects overall financial wellbeing (Netemeyer et al., 2018).

The findings from the path coefficient model demonstrate that every proposed relationship in the structural model holds statistical significance. The connection between Financial Literacy (FL) and Financial Well-being (FW) demonstrates a noteworthy and substantial relationship ($\beta = 0.420$, $t = 12.049$, $p < 0.001$), exhibiting a medium effect size ($f^2 = 0.209$), indicating that enhancements in financial literacy result in increased financial well-being.

The impact of Socio-Economic Status (SES) on Financial Literacy (FL) is notably robust and significant ($\beta = 0.615$, $t = 23.874$, $p < 0.001$), demonstrating a large effect size ($f^2 = 0.608$). The result suggests that SES plays a significant role in determining financial literacy within the model. Furthermore, SES demonstrates a notable direct influence on FW ($\beta = 0.348$, $t = 9.881$, $p < 0.001$), with the effect size being smaller ($f^2 = 0.143$), indicating a small to medium impact. The results validate the robustness and significance of the suggested structural connections within the framework.

4.3 Mediation Analysis

A mediation analysis was conducted to investigate the impact of Financial Literacy in the relationship between Socio-Economic Status and Financial Wellbeing. The analysis revealed a significant indirect relationship between Socio-Economic Status and Financial Wellbeing through Financial Literacy ($\beta = 0.258$, $t = 11.369$, $p < .001$). Given that both the direct effect (SES $\rightarrow$ FW: $\beta = 0.348$) and the indirect effect (SES $\rightarrow$ FL $\rightarrow$ FW: $\beta = 0.258$) were found significant, the mediation is categorised as partial.

Table 5: The Mediation Analysis Table

	Original ----- sample (O)	Sample----- -- mean (M)	Standard----- (STDEV)	deviation	T -----statistics (O/STDEV)	P----- values
SES -> FL -> FW	0.258	0.259	0.023		11.369	0

The findings indicate that Socio-economic factors affect financial well-being, and a significant portion of their influence is mediated by financial literacy.

This finding suggests that although socio-economic factors have an impact on financial well-being, a significant portion of their influence is mediated by financial literacy. Strong socio-economic backgrounds are associated with a deeper understanding of financial matters, and this improves their capacity to make rational choices and achieve better financial health. This is consistent with theories that emphasise the role of enabling skills, such as literacy, in addressing structural disadvantages (Bandura, 2001).

5. Conclusion

The main aim of the study is to know the impact of socio-economic status on financial wellbeing. After the literature review, it was found that financial literacy plays a moderating and mediating role between socio-economic status and financial wellbeing. To check the impact, SEM was used. The path coefficients analysis revealed a significant mediating effect between financial literacy and financial wellbeing; a significant large effect between socio-economic status and financial literacy, and a significant small-to-medium effect between socio-economic status and financial wellbeing. Financial literacy plays a crucial role as a mediating factor, enhancing the positive relationship between socio-economic status and financial outcomes.

The SEM model indicated that individuals with elevated socio-economic status tend to have enhanced financial literacy. Thus, proper financial knowledge, financial behaviour, and financial attitude are essential for sound decision-making and achieving better financial wellbeing.

The partially mediated relationship demonstrated the complexity of financial literacy, serving as both a result of structural conditions and a protective element that enhances financial outcomes among various socio-economic groups. Improving financial literacy could help diminish disparities in financial wellbeing and promote more inclusive economic growth.

The analysis reveals that financial literacy serves primarily as a conduit for transforming structural advantages into improved financial wellbeing, rather than simply modifying the intensity of the relationship between socioeconomic status and financial wellbeing. The findings indicate that improving financial literacy, particularly for socio-economically disadvantaged groups, could help diminish disparities in financial wellbeing and promote more inclusive economic growth.

6. Limitations and Directions for Future Research

-The sample might not adequately represent demographic diversity (rural versus urban), which could influence these relationships.

-Diminished reliability of the Financial Literacy construct indicates a need for possible enhancement or broadening of its indicators.

-Explore gender-based differences and behavioural studies in rural communities, such as credit usage, actual savings or scheme uptake, and longitudinal effects.

Acknowledgment

This work was supported by the Indian Council of Social Science Research (ICSSR) [02/10/2022-23/ICSSR/RP/MJ/OBC].

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