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EMOTIONAL CONSCIOUSNESS AND ITS RELATIONSHIP WITH FINANCIAL RISK TOLERANCE AND FINANCIAL RISK-TAKING BEHAVIOUR OF INDIVIDUAL INVESTORS

Abstract

A conceptual model of financial risk-tolerance and risk-taking behaviour is described. The proposed study incorporated both socio-demographic and psychological factorsto supplement better understanding of determinants of financial risk-tolerance and risk-taking behaviourfor researchers and policy makers. More specifically, it seeks to obtain support for the relationship between predictors of emotional consciousness and Financial Risk Tolerance. In a small survey sample (N=48) of individual

consciousness were positively associated withfinancial risk-tolerance, holding socio-demographic factors constant. Implications and directions for further research are discussed.

Keywords: Emotional Consciousness,Understanding of Emotions, Regulation of Emotions, Financial Risk Tolerance, Financial Risk-taking Behaviour.

1. Introduction

Every individual feelemotion but few possess the ability to understand and regulate them. A psychological study conducted at UCLA catalogued approximately 250 emotions and feelings, i.e. amid grief and joy, feeling good or bad, there exists a wide range of emotions that one needs to dig out. If one fails to understand or regulatehis emotions, he would end up living on an emotional roller coaster. Therefore, it has become essential to develop emotional consciousness.

Emotional Consciousness is one's ability to recognize emotions and regulate them. This means, above all, the chance to experience, recognize and regulate emotions. However, emotional consciousness is not limited to understandingand regulation of emotions but also allows one to understand how it affects

one's behaviour or thoughts. Despite of the fact that emotional consciousness can prove to be advantageous for individual investors, its role in financial decision-making process is less known. Since, high level of emotional consciousness encompassing sound financial knowledge, strategy and advicecan clearly signify the demarcation between a competent and incompetent investor.

Another noteworthy contribution of emotional consciousness is in understanding and acceptingone's attitude towards risk- not limited to financial decision-making but in all spheres of life. Most investors have higher financial risk tolerance during bull market, but the case becomes opposite when market crashes. Although, education and experience can help one better understand the deeper aspects of investments but how much uncertainty he/she is willing to accept over the long-term depends on his financial risk-tolerance, which an emotionally conscious investor would clearly understand and adhere to.

The present of the present study is to make advancement of theresearch in the field by addressing some of these contemporary concerns. It proposes to conceptualizeemotional consciousness within the literature of risk-tolerance and risk-taking behaviour of investors, and to use this framework to report results validating emotional consciousness.

2. Literature Review

For the purpose of study, the study provides a brief literature review of each construct namely Understanding of Emotions, regulation of Emotions, Financial Risk Tolerance and Financial Risk-taking behaviour to specify the relationship as proposed in the conceptual framework.

2.1 Financial Risk Tolerance

Financial risk tolerance (FRT) is often defined as, "the maximum amount of variabilityone is willing to accept while making investment decisions" (Grable, 2000). The variedresearcheswere built upon the simple definition (Hallahan, Faff, & McKenzie, 2003; Garrison & Gutter, 2010; Kourtidis, Sevic, &Chatzoglou, 2011). Although, the concept financial risk-tolerance (FRT) appears to be multi-dimensional, it is defined differently by each researcher. Roszkowski & Davey (2010); Van de Venter, Michayluk, &Davey (2012) identified that both personal and situational factors has significant impact on FRT, which changes over time. On the contrary, Van de Venter et al. (2012) found that FRT of an individual do not changes over time and remain stable.

While, studies on FRT has been largely associated with demographic and socio-demographicinfluences (Grable, 2008) leading to plethora of theories, development of measurement tools and the need to determine wide-ranging factors especially biopsychosocial factors capable of influencing FRT (Sung & Hanna, 1996; Wang & Hanna, 1997; Grable & Lytton, 1998; Grable &Joo, 1999, 2000; Grable, 2000; Hallahan, Faff & McKenzie, 2003; Grable &Joo, 2004; Grable &Rozkowski, 2008; Ryack, 2011; Gibson, Michayluk, Van de Venter, 2013). There arises a need to focus attention on the unobserved influences often ignored to predict FRT sincecounting only on the demographic factors could fail to accomplish the one's objectives because of its limited efficacy (Grable & Lytton, 1999a, 1999b), hence

individual or policymakers or financial practitioners would fetch better results if individual profiling is done based on their emotional encounters, keeping others factors constant.

2.2 Financial Risk-taking Behaviour

Any denotable overt action that an individual performs, is described as behaviour. In general management literature, behaviour can either be stated as goal-oriented or volitional. When a person is able tohandle his finances in a manner to achieve a goal that influenceshis action, it is called goal-oriented. On the other hand, it is considered volitional when his behaviour is influenced by intentions (Jaccard & Blanton, 2005). Apart from this, therealso existother external factors which influences a person's behaviour directly or indirectly (Grable et al., 1998).

In the realm of personal finance, it is plausible to discover research articles addressing psychosocial connections with financial behaviour (McKenna, Hyllegard& Linder, 2003; Rha, Montalto, & Hanna, 2006; Stum, 2006) and various demographic factors related with financial behaviour (Danes & Haberman, 2007).

Very few studies exist that have truly attempted to investigate the association between psychology and risk-taking behaviour arriving on the conclusion that psychological effectsplay significant role in influencing individual's decision to engage in a risk-taking behaviour (Krueger & Dickson, 1994).

2.3 Emotional Consciousness

Theprinciples of emotional consciousness have been talked about for times. The eminent philosophers like Socrates, Plato, Buddha and Confucius were of the opinion that emotions must be regulated to develop mastery.

Charles Darwin reported that not only humans but also animals exhibit emotional expressions. What one thinks, how he thinks, how he makes decisions and how he acts on them is influenced and guided by emotions. In other terms, emotions possess the capability to influence and guide an individual's thinking and behaviour.

A famous neuroscientist, Antonio Damasio (1994) confirmed in his book entitled Descartes' Error: Emotion, Reason, and the Human Brain that rational thinking and decision-making depends upon involvement of emotions. No decision is made in absence of emotions and no action can be stated purely rational.

Paul Ekman (1984) asserted that emotions are not scrambled but in fact follow likely patterns, rules and visual signals. He opined that emotions though do not occur with a conscious thought but their primary goal is to accelerate an individual to deal rapidly with significant events.

Emotions can be clearly distinguished from feelings or moods. While emotions are acknowledged as an individual's explicit response towards an event or object, be it real or fictitious, capable of influencing behaviour. On the other hand, moods lean towards universal, comprehensive, generalised states that influences events and are often less responsive to stimuli (Isen, A., 1984) In isolation, if emotions are

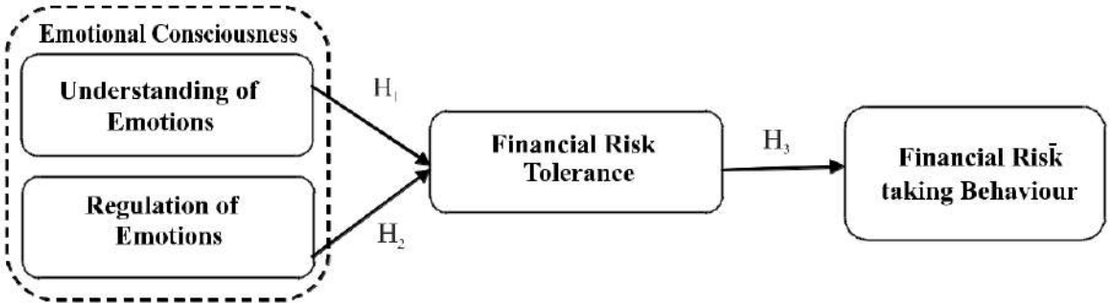
gestures; moods are background score. Feelings can be defined as, 'the physiological sensations apprising how one interprets and describes his emotional experience'.

Developing emotional consciousness can empower an individual to respond effectively than reactively. By increasing the range of emotional consciousness tactics, one may achieve more positive outcomes for himself as well as the people around him.

3. Proposed Research Model and Hypotheses

The researchers developed a process model of financial risk-taking tolerance leading to financial risk-taking behaviour

Figure 1 demonstrates that anindividual' spredis position to tolerate risk is influenced by variety of factors. Hence, it is hypothesized that;



H_1: Understanding of emotionshas a significant impact on Financial Risk Tolerance of individual investors.

H_2: Regulation of emotions has a significant impact on Financial Risk Tolerance of individual investors.

H_3: Financial Risk Tolerance significantly influences Financial Risk-taking Behaviour of individual investors.

4. Methodology

4.1. Participants

The study employeddescriptive survey technique. Data was collected from individual investors having association with leading stock broking agency of Agra, Uttar Pradesh using questionnaire. Purposive sampling method was used to ensure representativeness of that target population. Out of the total responses, 17 responses being incomplete or unusable were discarded. The final sample of the study was made up of 48 respondents.

4.2 Variables

The study used two independent variables namely Understanding of Emotions and Regulation of Emotions measured with 5-item on 5-point Likert scale adapted from Wong & Law (2004)and two dependent variables i.e., the level of financial risk tolerance measured using 5 itemon 5-point Likert scale developed by Grable &Joo (2014) and financial risk-taking behaviour of individual investorsmeasured using 4 item on 5-point Likert scale developed by Grable et al. (2008).

4.2.1 Control Variables

While the focus of proposed research was the relationship between predictors of emotional consciousness and risk-tolerance & risk-taking behaviour, 6 other independent variables (refer, Table 1) were included to serve as control variables based on Irwin's model of environmental and biopsychosocial influences on risk-tolerance and risk-taking behaviour.

Table 1: Control Variables

Variable	Frequency	Percent
Gender		
Male	34	70.8%
Female	14	29.2%
Age		
Below 30 year	19	39.6%
>= 30 years	29	60.4%
Education		
Graduate	25	52.1%
Postgraduate	23	47.9%
Marital Status		
Married	23	47.9%
Unmarried	25	52.1%
Occupation Type		
Salaried	34	70.8%
Self-employed	14	29.2%
Experience in Investments		
Below 5 years	37	77%
>= 5 years	11	23%
Annual Income		
Below 4 Lakhs	31	64.6%
>= 4 Lakhs	17	35.4%

5. Data Analysis, Results and Discussion

In order to test the hypotheses, the study employed Partial Least Square- Structure Equation Modelling using a software 'SmartPLS3.0'. Being based upon an iterative combination of principal component analysis and regression, Partial Least Square methodology has the capability to explain the variances of the constructs in a model (Chin, 1998). Itpermitsthe researcher to reject biases and inconsistent parameter estimates. The path-coefficients and specific item loadings are measured simultaneously in context to the specified model thereby reducing TYPE II errors (measurement errors). The two-stageapproach was used to test the proposed relationships;

- evaluation of measurement model and,
- testing the significance of proposed relationships in the structural model.

5.1 Measurement Model

The measurement model was estimated for its reliability and validity (convergent and discriminant) of the measurement instruments on the basis of the size and significance of its loadings, composite reliability, average variance extracted (AVE) and discriminant validity.

To estimate, indicator's reliability for every construct items, it has been suggested that the threshold value for the outer loading be greater than 0.6 for exploratory researchers and should be greater than 0.7 for the confirmatory researchers. However, the range of 0.5-0.6 have been accepted for construct development as well as for the scaling construct (Chin, 1998b; Götz et al., 2010; Hair et al., 2011; Hulland, 1999; Latan&Ghozali, 2012a).Thus, at the very outset, all items that had a loading of below 0.5 were eliminated from the measurement model.

T eliability and AVE

	Mean	SD	CR	AVE
FRB	2.363	0.382	0.682	0.549
FRT	2.625	1.035	0.931	0.730
ROE	3.208	0.755	0.905	0.658
UOE	4.329	0.412	0.754	0.386

Notes: CR, composite reliability; AVE, average variance extracted; FRB, Financial Risk-taking Behaviour; FRT, Financial Risk Tolerance; ROE, Regulations of Emotions; UOE, Understanding of Emotions

To compute the internal consistency reliability, the composite reliability needs to be estimated. The value of composite reliability often lies within the range of 0-1, meaning that the closer the value to 1, the better the items explain the latent construct's variance. The thresholdvalue is the same as that of indicator reliability should be greater than or equal to 0.7 (Bagozzi& Yi, 1988; Götz et al., 2010; Hair et al., 2011; Latan&Ghozali, 2012a). Thus, the value of the indicator reliability will influence the value for composite reliability.Thus, the measurement items were found to be reliable (refer to Table 2).

To estimate convergent validity, Fornell & Larcker (1981) proposed computing the Average Variance Extracted. The value of AVE for all the variableswere within the threshold of 0.50 (refer to Table 2), explaining the percentage of the variance from the indicators (Chin, 2010), thereby confirming the convergent validity.Moreover, the discriminant validity of the construct can becomputed either from each of the construct's AVE model, i.e., the construct correlation (refer to Table 3).

Table 3: Fornell - Larcker criterion

	Correlations			
	FRB	**FRT**	**ROE**	**UOE**
FRB	***0.741***			
FRT	0.434	***0.855***		
ROE	-0.469	-0.365	***0.811***	
UOE	-0.278	-0.446	0.163	***0.621***

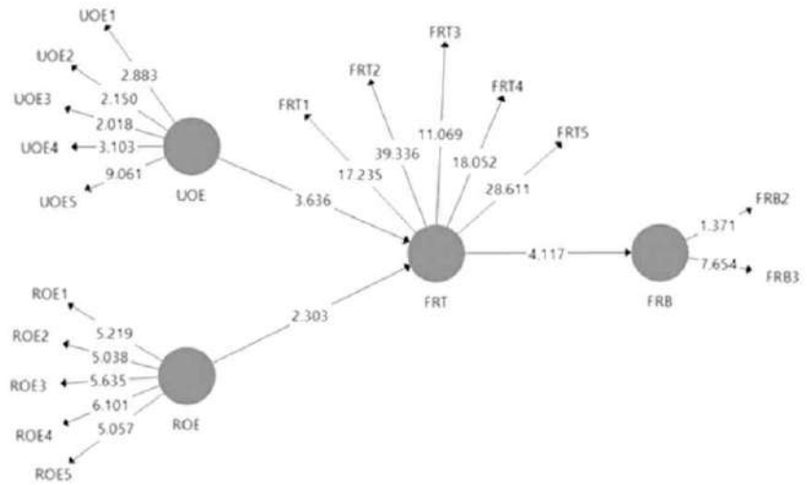
Notes: FRB, Financial Risk-taking Behaviour; FRT, Financial Risk Tolerance; ROE, Regulations of Emotions; UOE, Understanding of Emotions. Italic characters in the correlation matrix represent the square root of the Average Variance Extracted (AVE).

The bigger the value of the construct AVE, the better is the discriminant validation that comes from correlation within the model constructs (Fornell & Larcker, 1981).Also, to re-ensure discriminant validity, the measured variables were also tested for cross-loadings. The loadings of measured variables were found to be higher on their respective constructs than on any other construct (refer table 3, the bold

italicized values)which indicated the absence of cross-loadings hence, confirming the discriminant validity of the constructs.

5.2 Evaluation of Structural Model

The two predictor variables namely Understanding of Emotions and Regulation of Emotions were tested for collinearity. A significant level of collinearity was observed among the predictor constructs. The variance inflation factor (VIF) values for all the predictor constructs were found to be less than the threshold value of 5.0 with the tolerance value of greater than2.0.Figure 2 represents the results of the hypothesized relationships as shown in the structural model below.



Notes: VIF, variance inflation factor; UOE, Understanding of Emotions; ROE, Regulation of Emotions; FRT, Financial Risk Tolerance; FRB, Financial Risk-taking Behaviour

To test the significance of proposed relationships on one-tailed distribution, Bootstrapping was performed on 500 subsamples at a significance level of 0.05. Understanding of Emotions ($t = 3.636$, $p = 0.000$), Regulation of Emotions ($t = 2.303$, $p = 0.022$) significantly influences Financial Risk Tolerance (refer to Table 4). Therefore, the hypothesesH_1and H_2were accepted. Also, Financial Risk Tolerance significantly influences Financial Risk-taking Behaviour ($t = 4.117$, $p > 0.000$, refer to Table 4). Thus, hypothesis $H_3$was also accepted.

T

	VIF	β	Adjusted R^2	t-statistics	p-values	f^2
FRT ->FRB	1.00	0.434	0.189	4.117	0.000	0.233
ROE ->FRT	1.027	-0.300	0.286	2.303	0.022	0.122
UOE ->FRT	1.027	-0.397		3.636	0.000	0.215

Notes: VIF, variance inflation factor; FRB, Financial Risk-taking Behaviour; FRT, Financial Risk Tolerance; ROE, Regulations of Emotions; UOE, Understanding of Emotions; β, Path Coefficient.

The structural model is analysed from the value of Adjusted R-square for each endogenous variable. The value of adjusted R-square is revealed for its strong prediction, i.e., the bigger the value of the Adjusted R-square, the stronger the model predictor for the variance explanation of the endogenous variable (refer Table 4). The adjusted R-Square values of 0.25, 0.40 and 0.75 depicts weak, moderate and strong models, respectively.

In addition of evaluating the Adjusted R-square values of all endogenous constructs,f^2 value i.e., effect size isdetermined to measure how large is the influence of the exogenous variable on the endogenous variable. The f^2 values of 0.02 signify small, 0.15 represents medium, and 0.35 predict large effects (Cohen, 1988). Understanding of Emotions (f^2= 0.215, strong) and Regulation of Emotions (f^2= 0.122, moderate) have the major share in influencing financial risk tolerance of individual investors. Also, Financial Risk Tolerance (f^2= 0.233, strong) is also capable of influencing Financial Risk-taking Behaviour.

Table 5: Blindfolding Results

	Q^2
FRB	0.053
FRT	0.175

Notes: FRB, Financial Risk-taking Behaviour; FRT, Financial Risk Tolerance; Q^2, Predictive Relevance

The value from the structural model evaluation can also be computed through the Q^2, often called predictive sample reuse (Geisser,1974; Stone, 1974) often performed using blindfold procedure. If Q^2> 0, it shows that the model has predictive relevance, but if Q^2< 0, it explains that the model has less predictive relevance. The Q^2 predictive relevance of 0.02, 0.15 and 0.35 indicate a weak, moderate and strong model respectively. The results show that inner model has strong predictive relevance (refer Table 5).

5.3 Control Variable Results

Table 6displays the bivariate correlations between keyvariables of theproposed study. As expected, Gender and Marital Status was positively associated with Financial Risk Tolerance while no association was found with financial risk-taking behaviour. Age was negativelyassociated with risk tolerance and

even with risk-taking behaviour. Education, Income and Experience in Investments were also negatively associated with Financial Risk Tolerance;however, it did not have any association with Financial Risk-taking Behaviour.

Table 6: Bivariate Correlations between the variables

	Gender	Age	Edu	Marital Status	Occ. Type	Income	Exp	FRT	FRB
Gender	1	-.230	.027	.157	-.210	-.092	-.132	.308*	.153
Age	-.230	1	.179	-.521**	.238	.243***	.441**	-.248***	-.314*
Edu	.027	.179	1	-.416**	.394**	.510**	.072	-.386**	.030
Marital Status	.157	-.521**	-.416**	1	-.394**	-.423**	-.172	.304*	.129
Occ. Type	-.210	.238	.394**	-.394**	1	.675**	-.023	-.233	-.022
Income	-.092	.243***	.510**	-.423**	.675**	1	.011	-.296*	.052
Exp.	-.132	.441**	.072	-.172	-.023	.011	1	-.410**	-.106

*$p < 0.05$, **$p < 0.00$, ***$p < 0.10$

Notes: FRT, Financial Risk T

Moreover, to test the significant difference between level of Financial Risk-tolerance and Financial Risk-taking Behaviour, independent sample t-test was applied (refer, Table 7 & Table 8). Before application of the test, assumption of homogeneity of variance must be substantiated, which states that there must be no significant difference between variance of the groups. For establishing the same, Levene's test of equality of variances was applied. The value greater than 0.05 represents that no significant difference exists between the variance of groups.

Table 7: Result Analysis of control variables on Financial Risk Tolerance

Demographic Characteristics		Mean	S.D.	t-Test			
				Levene's Test for Equality of Variances		t-test for Equity of Means	
				F	Sig.	|T|	Sig.
Gender	Male	2.38	0.985	0.70	0.793	2.195	0.03*
	Female	3.07	0.997				
Age	<30 Yrs.	2.89	0.875	2.658	0.110	1.735	0.08***
	>=30 Yrs.	2.38	1.083				
Experience	<5 Years	2.81	0.967	0.216	0.644	3.050	0.00**
	>=5 Years	1.82	0.874				
Marital Status	Unmarried	2.26	1.054	0.712	0.403	2.165	0.03*
	Married	2.88	0.927				
Income	< 4 Lakhs	2.81	0.873	2.233	0.142	2.103	0.04*
	>= 4 Lakhs	2.18	1.185				
Occupation	Salaried	2.74	0.898	2.614	0.113	1.624	0.11
	Self-employed	2.21	1.251				
Education	Graduate	2.96	0.841	1.861	0.179	2.838	0.00**
	Post Graduate	2.17	1.072				

*$p < 0.05$, **$p < 0.00$, ***$p < 0.10$

Results in table 7 showed that significant difference was found in level of financial risk tolerance between the groups (Gender, Age, Experience, Marital Status, Income & Education) except that of Occupation.

Conversely, table 8 displays that no significant difference was found in level of financial risk-taking behaviour between the groups (Gender, Experience, Marital Status, Income, Occupation& Education) except that of Age.

Table 8: Result aking Behaviour

Demographic Characteristics		Mean	S.D.	t-Test			
				Levene's Test for Equality of Variances		t-test for Equity of Means	
				F	Sig.	|T|	Sig.
Gender	Male	2.32	0.535	0.137	0.713	1.048	0.30
	Female	2.50	0.519				
Age	< 30 years	2.58	0.507	1.071	0.306	2.245	0.03*
	>= 30 years	2.24	0.511				
Experience	<5 Years	2.41	0.551	3.400	0.072	0.724	0.47
	>=5 Years	2.27	0.467				
Marital Status	Unmarried	2.30	0.559	0.028	0.869	0.882	0.38
	Married	2.44	0.507				
Income	< 4 Lakhs	2.35	0.486	3.078	0.086	0.352	0.72
	>= 4 Lakhs	2.41	0.618				
Occupation	Salaried	2.38	0.493	2.007	0.163	0.148	0.88
	Self-employed	2.36	0.633				
Education	Graduate	2.36	0.490	1.740	0.194	0.202	0.84
	Post Graduate	2.39	0.583				

$p < 0.05$

6. Conclusion and implications

The investigation of risk tolerance leading to risk-taking behaviour from the perspective of emotional consciousness suggests that risk tolerance is heavily affected by emotionswhile controlling for socio-demographic variables. An individual who is able to identify and regulate his emotions has larger . Since no such empirical evidence can be found for the relationship between emotional consciousnessand financial risk tolerance in past studies, the present study findings are breakthrough and provides conceptual and empiricalevidence that understanding of emotions and its regulations play a significant role in determiningfinancial decision-makers risk tolerance level.Since, emotional consciousness may not be an easy task to administer, it thus becomes very difficult to obtain risk-tolerance measures to explain behaviour of individual investors in the market. However, a vigilant analysis by traders/agents may reveal the nature of risk from an individual's perspective and thus helps in selecting optimum portfolio.

7. Limitations and scope for future research

The study has recorded few limitations. First, the study's result cannot be generalized due to small sample size; hence a larger sample would give more generalized results. Since, the study is correlational in nature, it does not state any causal relationships between the variables. Hence, future research should be directed to presenta causal relationship amongst variables to develop a better understanding of determinants of financial risk-taking tolerance.

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CONSUMPTION PATTERN OF DIFFERENT OCCUPATIONAL GROUPS OF RURAL HOUSEHOLDS

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Abstract

The present study examined the pattern of the households' food and non-food expenditure in rural areas of border districts of Punjab state of India. To accomplish this objective, primary data has been collected from 360 rural households from three border districts of Punjab. The result shows that monthly per capita expenditure (MPCE) on food items in rural areas of border district of Punjab is Rs. 928, out of which maximum MPCE is on beverages, refreshment and processed food. Whereas, MPCE on non-food items is Rs. 809 in Punjab.

Punjab is on the education i.e. Rs. 217, which is a positive sign of development and awareness among the people. The study concludes that the pattern of consumption expenditure is undergoing a change in rural households particularly in border areas of Punjab.

Key words: Food Expenditure, Non-Food Expenditure, MPCE, Consumption Pattern, Determinants, Budget Share, Punjab.

Introduction

No country of the world can make progress without adequate provisions of nutrition. The welfare of the people can be measured by the expenditure of its people on various consumption heads. The investment level and the extension of business activities are dependent upon the consumption pattern of the households. So, it is very important to know the various factors affecting the household consumption pattern. Expenditure pattern of the households is reflected by the consumption of various goods and services, which is further influenced by the household composition, demographic features, needs, tastes and financial means. Various other factors which also affect the consumption pattern are income level, market prices, individual preferences, traditions and beliefs. Besides this, economic and geographic factors, education and age of the head of the households, habits and personal experience also play an important role in affecting the consumption preferences of the consumers. Nayga, M.R.J