

Analyzing the Impact of Budgeting in Personal Finance amongst working Mumbaikars

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ABSTRACT

“Personal finance is only 20% head knowledge. It’s 80% behavior!” – Dave Ramsey

The above quote succinctly encapsulates a fundamental aspect of financial management. This statement emphasizes that while having the right information and understanding financial principles is essential, the majority of success in personal finance comes from one's behaviour and habits. Budgeting is a fundamental aspect of financial planning that empowers individuals to allocate their resources wisely, save for future goals, and navigate through various financial challenges. Managing a budget among the general populace in the financial hub of Mumbai poses significant challenges, primarily stemming from the burden of unavoidable expenses and a lack of financial knowledge prevalent among the lower segments of the community. The intricate financial landscape of the city exacerbates the difficulties faced by individuals in effectively navigating their budgets, making it imperative to address the unique hurdles encountered by the economically disadvantaged. This research paper delves into the unique financial landscape of Mumbai, India, and assesses the impact of budgeting on personal finance among its residents, colloquially known as Mumbaikars. As one of the most dynamic and economically vibrant cities in the country, Mumbai presents distinct challenges and opportunities for individuals in managing their finances. The study employs a mixed-methods approach, combining surveys and interviews, to comprehensively explore the relationship between budgeting practices and financial well-being in the context of Mumbai. By understanding the specific financial behaviours and challenges prevalent among Mumbaikars, this research aims to provide valuable insights for both individuals and policymakers, contributing to the enhancement of financial literacy and stability in this bustling metropolis.

Keywords: Personal Finance, Budgeting, Financial Wellbeing, Financial Literacy, Mumbaikar.

INTRODUCTION

Despite earning a decent salary, many Mumbaikars find themselves living paycheck to paycheck with little or no savings. This common issue highlights the critical importance of budgeting in their lives. Budgeting is essential for personal financial management as it helps individuals create plans for spending and investing their money wisely. By ensuring they spend less than they earn, individuals can work towards their financial goals. Research shows that budgeting positively influences spending behaviour, enabling people to reduce expenses and make more informed financial decisions. Additionally, budgeting enhances financial literacy, which contributes to financial security and freedom. Various factors, including financial socialization, psychological characteristics, and financial literacy, influence budgeting, affecting personal financial management. In a city as economically vibrant as Mumbai, effective budgeting is vital for navigating its complex financial landscape. This research examines how budgeting impacts personal financial well-being among Mumbai's residents, with a particular focus on the economically disadvantaged.

Objective of the Study

1. To assess the prevalence and effectiveness of budgeting practices
2. To understand the role of financial knowledge and behaviour in shaping the confidence of Mumbaikars in their ability to consistently adhere to their budgets.

Research Methodology- Research is always about adding or gaining more knowledge and information on the topic of research. It is about identifying and investigating a problem and then aiming to provide a solution for the same by knowledge. The study concentrates on generating the awareness of budgeting in the area of personal finance.

Research type and tools- This research is a kind of descriptive research and exploratory research done with the help of primary data with the help of a structured questionnaire and secondary data available in the form of articles, research papers over internet.

This research paper will delve into the pressing issue of financial insecurity among Mumbaikars despite earning decent salaries. It will explore the critical role that budgeting plays in addressing this issue, emphasizing its significance in personal financial management. By analysing how budgeting practices influence spending behaviour and financial literacy, the paper aims to uncover strategies for enhancing personal financial well-being in Mumbai's complex economic environment. Special attention will be given to the economically disadvantaged, shedding light on their unique challenges and the potential of budgeting to empower them towards financial stability and freedom.

Sample Size and Sampling technique- The sample size is 156 and the sampling technique used is the simple random sampling wherein the salaried people in Mumbai were the respondent.

Hypothesis

H₀. Implementing effective budgeting practices does not significantly improve the financial well-being of working Mumbaikars

H₁. Implementing effective budgeting practices significantly improve the financial well-being of working Mumbaikars

LITERATURE REVIEW

(2023) Marcel F Lukas, Ray Charles “Chuck” Howard in his article on “ The influence of Budgets on Consumer spending” emphasizes on that while optimistic budgets often lead to overspending, they still help reduce spending, especially for impulsive consumers who set lower budgets.

(2023) Ruofan Bai in his paper on “Impact of financial Literacy. Mental Budgeting and Self-control on financial wellbeing: meditating the impact of investment decision making” explores the impact of financial literacy, mental budgeting, and self-control on subjective financial well-being, mediated by investment decision-making behaviour. The study finds that these cognitive factors positively influence financial well-being. Financial literacy, mental budgeting, and self-control lead to better financial outcomes, with investment decision-making partially mediating this relationship. These findings offer theoretical insights and practical implications for promoting financial wellness among individuals, policymakers, and financial institutions.

(2021) Dhivya M, Dr.Balamourougane R in their study on “An anatomization of existing literature on personal finance practices to perceive the disruption during new normal” discussed the The COVID-19 pandemic has profoundly impacted personal finances, with job losses, salary reductions, and business downturns leading to decreased incomes and unexpected health and hygiene expenses. Households have had to reduce routine expenses and balance the trade-off between lost income and increased costs. Understanding these changes in personal finance, particularly in areas such as saving, spending, tax planning, retirement planning, and financial security, is crucial as the new normal takes hold globally.

(2020) Naman Jain, Miloni Sanghani, Nidhi Surana, Nihal Sohal and Peeya Barath in their research paper “To Understand The Level Of Financial Literacy Among Adults In Mumbai” investigates the financial literacy of Mumbaikars and the sources of their financial information. The study revealed that men were found to possess more financial knowledge compared to women. The study highlights the impact of financial literacy on investment behaviour but suggests further research is needed to establish causal relationships and improve accessibility to financial education.

(2019) Simone Galperti in her paper titled as “A Theory of personal budgeting” explores the relationship between self-control issues and personal budgeting using a simple consumption-savings model involving a present-biased agent. It argues that, unlike minimum-savings rules, setting spending caps for specific goods helps reduce overspending by creating inefficiencies in consumption that diminish the appeal of under saving, thus counteracting present bias.

(2018) Farahdita Dyah Susanto and Ria Sandra Alimbudiono in their study titled as “Budgeting Application For Personal Financial Planning Among Students Majoring in Accounting” focuses on Financial literacy, vital for managing finances effectively, is often lacking among students. Budgeting, a fundamental component of financial literacy, aids individuals in controlling expenses, guiding spending, and preventing overspending. Personal financial planning, encompassing budgeting, helps individuals achieve economic well-being and financial security. However, despite its importance, many students neglect financial planning, leading to financial problems. This study explores how accounting students, equipped with budgeting courses, apply budgeting skills in personal financial planning, aiming to enhance their financial literacy and

future financial prospects.

(2016) Michael Van Roestel in his case study titled as “A Collaborative Approach to Budgeting and the Impact on the Budgeting Process” highlights the importance of budgets in organizations. Organizations need to improve their budget processes for accurate forecasting by involving more people, especially those with operational expertise. A collaborative approach to budgeting, rather than a small group dictating forecasts, leads to better outcomes. Including operations managers, who are accountable for budget performance, is essential. This collaborative method ensures a more reliable and meaningful budget, enhances team spirit, and benefits the organization. Overall, collaboration in budgeting results in a superior, inclusive process that aligns with the interests of those responsible for financial results.

DATA ANALYSIS AND INTERPRETATION

Tabulation of data

Table 1: Understanding the Impact of Budgeting in Personal Finance

Understanding the Impact of Budgeting in Personal Finance							
Statement Number	Statement	1 (SA)	2(A)	3(N)	4(D)	5(SD)	Total
1	I regularly track my income and expenses.	45	78	22	7	4	156
2	I create a monthly budget to manage my finances	39	66	30	13	8	156
3	Budgeting helps me to plan for future expenses.	65	69	18	1	3	156
4	Budgeting has improved my financial situation.	50	69	31	3	3	156
5	I feel less stressed about money when I follow my budget.	57	66	30	2	1	156
6	Budgeting helps me avoid unnecessary debt	56	70	26	4	0	156
7	I find it difficult to stick to my budget.	26	51	53	22	4	156
8	Impulsive spending often disrupts my budget plans.	33	71	33	13	6	156
9	I lack the discipline to regularly update my budget.	30	53	38	26	9	156
10	I prioritize short-term desires over long-term financial goals.	18	55	50	23	10	156
11	High living costs in Mumbai make it hard to follow a budget.	45	53	48	8	2	156
12	Irregular income makes budgeting challenging for me.	34	55	41	23	3	156
13	Unexpected expenses often derail my budget.	38	72	35	8	3	156
14	Do you believe that managing a budget can improve financial stability?	77	61	15	3	0	156
15	I feel confident in my knowledge of personal finance principles.	43	64	41	5	3	156
16	Budgeting plays an important role in personal finance	67	70	18	1	0	156
17	I am confident in my ability to stick to my budget consistently	34	66	47	7	2	156
18	I strongly believe in importance of achieving my financial goals through budgeting	52	69	31	1	3	156
19	Financial educational workshops and seminars enhances your budgeting skills	58	59	27	7	5	156
20	Cultural and Social norms in Mumbai influence your financial decisions	38	59	43	12	4	156
21	I find my current budgeting method to be effective in helping me manage my finances	31	67	44	10	4	156
Total		936	1343	721	199	77	3276

Source: Compiled by the researcher

Table 1 gives the summary of the survey conducted by the author i.e. the number of respondents agree or disagree with a respective statement.

Chi Square Calculations (Refer annexure 1)

As the Questionnaire is comprised of 21 statements covering maximum aspects of budgeting impact on personal finance, there will be hypothesis testing.

To draw the conclusion Chi- **Square test** is used as a tool. The ultimate focus is on

“Is there an impact of budgeting practices on financial well-being of working Mumbaikars”

The formulas for the test is as follows

$$\text{Chi-square test} = (f_o - f_e)^2 / f_e$$

Here,

f_o = Observed Frequency

f_e = Expected Frequency = $RT \cdot CT / N$ (where, RT is row total and CT is column total and N is grand total of the observation)

Calculated value of Chi square= **362.222543**(Annexure 1)

Tabular value of Chi square at 5% level of significance at **80 degree of freedom** is **101.879**

As Calculated value > Tabular value, H_0 is rejected.

The rejection of the null hypothesis (H_0) indicates that there is a significant impact of effective budgeting practices on the financial well-being of working Mumbaikars. This conclusion supports the alternative hypothesis (H_1), suggesting that implementing effective budgeting practices does indeed improve the financial well-being of individuals in this demographic.

Implications

- **For Individuals:** This finding underscores the importance of adopting and maintaining effective budgeting practices to enhance financial stability and achieve financial goals.
- **For Policymakers and Financial Educators:** The results highlight the need for initiatives that promote financial literacy and budgeting skills, particularly in urban settings like Mumbai where living costs are high.
- **For Future Research:** Further studies could explore specific aspects of budgeting practices that have the most significant impact, providing more detailed guidance on best practices for financial management.

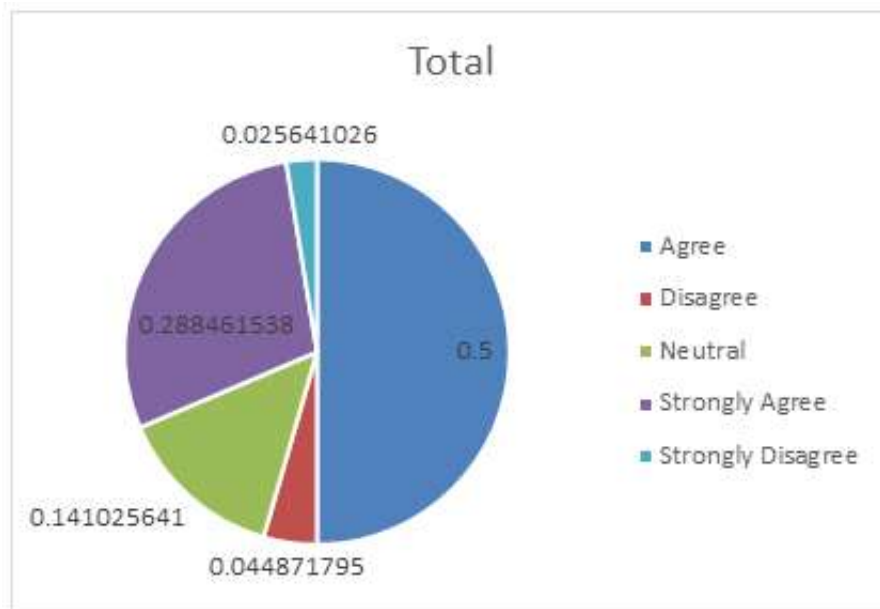


Figure 1: Regularity in tracking income and Expenses

The pie chart illustrates responses to a survey on the impact of budgeting in personal finance, specifically whether respondents regularly track their income and expenses. The results show that 50.00% agree and 28.85% strongly agree with the statement, indicating a significant majority (78.85%) are engaged in tracking their finances. Meanwhile, 14.10% are neutral, 4.49% disagree, and 2.56% strongly disagree.

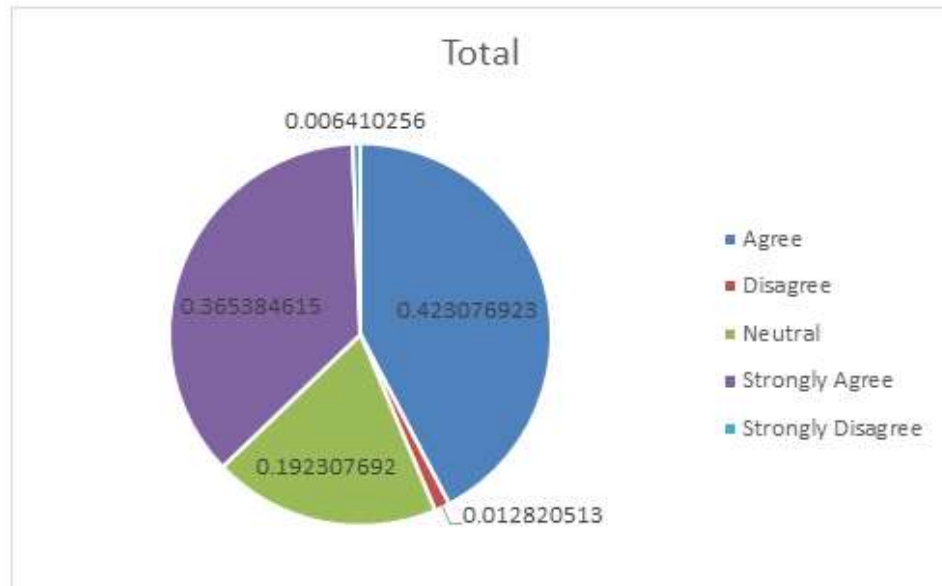


Figure 2: Financial Stress Reduction through Budgeting

The pie chart represents responses to the statement "I feel less stressed about money when I follow my budget." The data shows that 42.31% of respondents agree and 36.54% strongly agree, indicating a substantial majority (78.85%) experience reduced financial stress when adhering to their budget. In contrast, 19.23% remain neutral, 1.28% disagree, and a minimal 0.64% strongly disagree. This suggests that effective budgeting is linked to lower financial stress for most respondents.

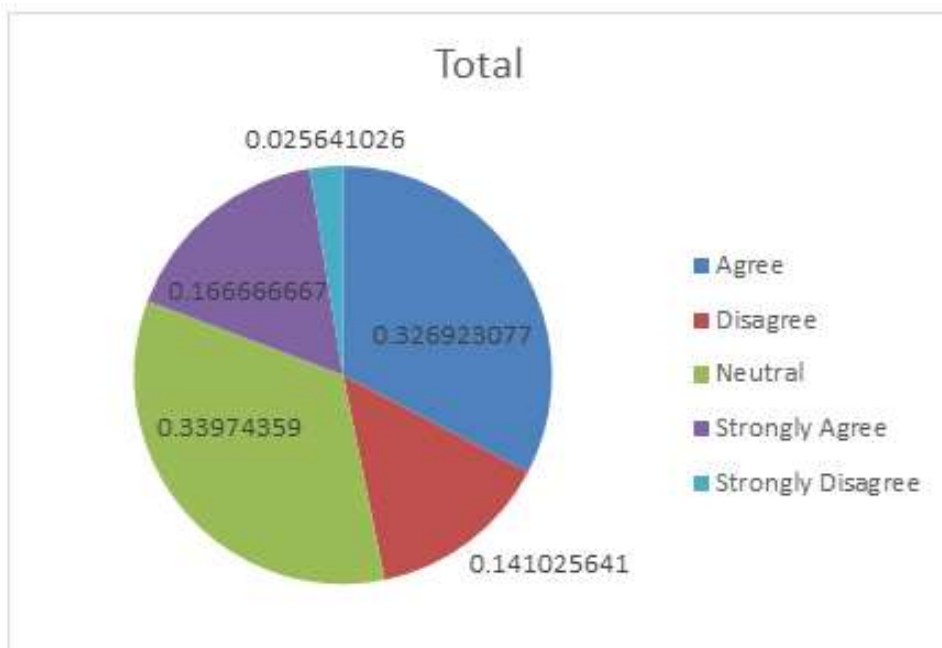


Figure 3: Budget Adherence Difficulties

The pie chart illustrates responses to the statement "I find it difficult to stick to my budget." The largest group, 33.97%, are neutral, indicating they neither find it particularly easy nor difficult. Meanwhile, 32.69% agree that they struggle to adhere to their budget, and 16.67% strongly agree, totalling 49.36% who find it challenging. On the other hand, 14.10% disagree and 2.56% strongly disagree, suggesting that a smaller portion (16.66%) do not have difficulty sticking to their budget. This indicates that nearly half of the respondents face challenges in maintaining their budget.

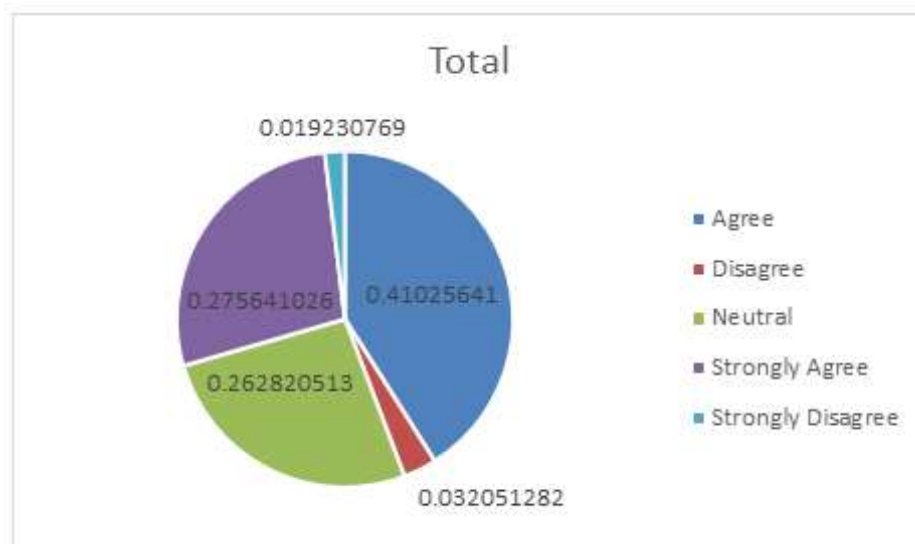


Figure 4: Confidence level in Personal Finance Knowledge

The given data on the statement "I feel confident in my knowledge of personal finance principles" is summarized as follows: The pie chart indicates that 46.81% of respondents agree with the statement, with 22.94% strongly agreeing, making a total of 69.75% who feel confident in their knowledge of personal finance principles. Conversely, 5.08% disagree, and 2.56% strongly disagree, totalling 7.64% who do not feel confident. Additionally, 22.61% of respondents are neutral, showing neither confidence nor lack thereof in their understanding of personal finance. This suggests that a majority of respondents have confidence in their knowledge of personal finance, while a smaller segment either disagrees or remains neutral.

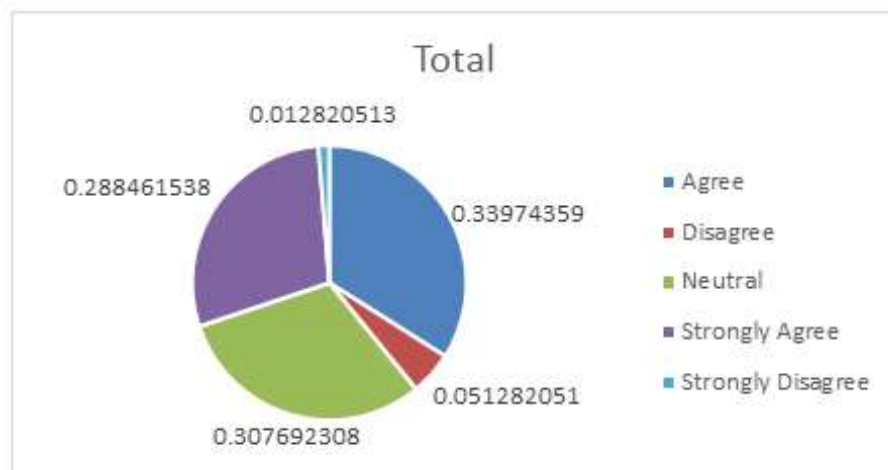


Figure 5: Impact of High Living Costs in Mumbai on saving money

The pie chart presents responses to the statement "High living costs in Mumbai make it difficult to save money." The results show that 33.97% of respondents agree and 28.85% strongly agree, totalling 62.82% who find it challenging to save money due to high living costs in Mumbai. Meanwhile, 30.77% of respondents are neutral, indicating no strong opinion on the matter. A smaller proportion, 5.13%, disagree, and 1.28% strongly disagree, totalling 6.41% who do not find high living costs a significant barrier to saving money. This suggests that a majority of respondents perceive high living costs in Mumbai as a hindrance to saving.

FINDINGS AND CONCLUSION OF THE STUDY

- The study reveals that many working Mumbaikars regularly track their income and expenses, indicating an awareness of their financial situation, though attitudes towards creating monthly budgets vary.
- Budgeting is recognized for its role in planning future expenses and improving financial preparedness.
- Financial education workshops are seen as valuable in enhancing budgeting skills and overall financial literacy.

- Cultural and social norms significantly influence financial decisions, highlighting the need for culturally sensitive financial education programs.
- While some respondents find their current budgeting methods effective, others face challenges such as high living costs and irregular income, underscoring the need for targeted interventions to support better budgeting practices.
- Overall, the findings emphasize the importance of financial literacy and tailored support systems in improving personal financial management in Mumbai.

SUGGESTIONS

- To enhance financial literacy in Mumbai, comprehensive programs should be implemented across schools, colleges, and workplaces. These initiatives would focus on teaching effective budgeting techniques, saving strategies, and financial planning tailored to the city's economic landscape.
- Workshops and seminars would be organized to impart practical financial skills, encouraging regular tracking of income and expenses through digital tools. Incentives such as discounts on financial products could promote consistent budget monitoring, while support groups and personalized coaching would help individuals overcome challenges in sticking to their budgets.
- Additionally, efforts should address the impact of high living costs by advocating for policies like affordable housing initiatives and promoting awareness of cost-effective alternatives.
- Culturally sensitive financial education programs, incorporating local case studies and respecting diverse cultural norms, would ensure widespread relevance and understanding.
- Special support for economically disadvantaged groups through initiatives like low-interest microloans and partnerships with NGOs would further enhance accessibility to financial education and resources.
- By integrating these strategies and recommendations into policy frameworks, Mumbai can foster a more financially literate population, better equipped to manage economic challenges and improve overall financial well-being.

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ANNEXURE

Questionnaire

Statement Number	Statement	SA	A	N	D	SD
1	I regularly track my income and expenses.					
2	I create a monthly budget to manage my finances					
3	Budgeting helps me to plan for future expenses.					
4	Budgeting has improved my financial situation.					
5	I feel less stressed about money when I follow my budget.					
6	Budgeting helps me avoid unnecessary debt					
7	I find it difficult to stick to my budget.					
8	Impulsive spending often disrupts my budget plans.					
9	I lack the discipline to regularly update my budget.					
10	I prioritize short-term desires over long-term financial goals.					
11	High living costs in Mumbai make it hard to follow a budget.					
12	Irregular income makes budgeting challenging for me.					
13	Unexpected expenses often derail my budget.					
14	Do you believe that managing a budget can improve financial stability?					
15	I feel confident in my knowledge of personal finance principles.					
16	Budgeting plays an important role in personal finance					
17	I am confident in my ability to stick to my budget consistently					
18	I strongly believe in importance of achieving my financial goals through budgeting					
19	Financial educational workshops and seminars enhances your budgeting skills					
20	Cultural and Social norms in Mumbai influence your financial decisions					
21	I find my current budgeting method to be effective in helping me manage my finances					

1- Strongly Agree, 2- Agree, 3- N- Neutral, 4- Disagree and 5- Strongly Disagree