Journal of Neonatal Surgery
ISSN(Online): 2226-0439
Vol. 14, Issue 22s (2025)
https://www.jneonatalsurg.com

Impact of Individuals' Disposable Income on Investment of Mutual Funds

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Cite this paper as: Mr. Dikshit Hemant Kothari, Anjali Singh, Rakhi Sharma, (2025). Impact of Individuals' Disposable Income on Investment of Mutual Funds. *Journal of Neonatal Surgery*, 14 (22s), 74-79.

ABSTRACT

This study examines individuals' disposable income on mutual funds investment behaviors, specifically focusing on both the likelihood of investing and the amount invested. Using a quantitative research approach, information was gathered from 102 mutual fund investors residing in Mumbai, India, via structured questionnaires. Various statistical techniques, including Chi-square tests, ANOVA, and logistics regressions with interaction terms, were applied to evaluate the correspondence between discretionary income and investment patterns. The findings indicate that discretionary income does not remarkably influence whether individuals choose to spend in open-end funds. However, it does have a systematically notable effect on the investment amount, with higher income groups allocating a considerable/ concerning size of their disposable income towards open-ended funds. Additionally, Group characteristics that vary in decision-making were analyzed to assess their moderating role. Results show no significant moderating effect, suggesting that the repercussion of disposable income on open-end fund expenditure behavior is consistent across different group characteristics. The study concludes that while a person's disposable income significantly influences how much they invest, demographic factors like age, gender, or occupation do not have a major impact on their investment decisions. For future research, it is suggested to explore cognitive and social aspects such as financial awareness, risk- taking ability, and overall investment knowledge. This will help in gaining a deeper understanding of the factors that shape open-ended investment behavior.

Keyword: *: Disposable Income, Mutual Funds, Investment Behavior, Demographic Factors, Financial Literacy, Risk Tolerance, Investment Decisions, Mumbai, Quantitative Research*.

1. INTRODUCTION

Investing in mutual funds has become increasingly popular as an affordable way for individuals to grow their wealth. With a wide range of options available for different risk appetites, mutual funds play an essential role in personal financial planning. However, the decision to invest in mutual funds and the amount an individual allocates depends largely on their financial capacity, especially their disposable income. Disposable income, which is the money left after paying taxes and essential expenses, has a significant impact on investment behavior. This study examines the correspondence between discretionary income and an individual's likelihood of investing in mutual funds. Understanding this relationship is essential because individuals with higher disposable income have greater financial flexibility to participate in investment markets. Changes in disposable income can directly influence investment levels, affecting mutual fund inflows. Demographic factors like education, age, and income also shape this dynamic, as different groups perceive and approach investment opportunities differently. Younger investors often prefer high- risk, high-return options, while older individuals tend to focus on financial security. Similarly, those with higher education levels usually have better financial literacy, enabling them to make more informed investment decisions. By analyzing these factors, this study aims to explore how demographic traits influence the effect of disposable income on open-ended mutual fund investments. The findings of this study will contribute to a deeper understanding of investor behavior, enabling policymakers, financial professionals, and fund managers to develop strategies that promote informed investment decisions and broader market participation.

Objective

1. To explore the link between individual disposable income and the likelihood related to mutual fund investment decisions
2. To analyze how changes in disposable income impact the amount individuals allocate to mutual fund investments
3. To explore the function of demographic factors in moderating the association between disposable income and mutual.

fund investment decisions

2. LITERATURE REVIEW

Over the years, researchers have shown a growing interest in exploring how disposable income influences investment in mutual funds. Affects mutual fund investments. Numerous research studies have employed a range of sample sizes and methodologies to gain a deeper understanding of this link. For example, Bouzekouk and Mansor (2024) conducted a study on muslim women in Malaysia and observed that religious convictions and discretionary income strongly influenced investing in mutual funds decisions.

In Japan, Kadoya, Khan, and Yamane (2025) explored how income levels affect human behavior. Nearly 185,000 households' data was used to find that those with higher disposable income are more likely to vary their investment among different assets, involving mutual funds, and look for financial guidance.

Chaisiripaibool and Kraiwanit (2025) focused on how digital financial tools are being embraced. With around 396 respondents, their research focused on the fact that people with greater financial resilience tend to show more interest in investing in newer tools like digital assets and mutual funds.

A study examined investment patterns among workers in Rwanda's public health sector. Ogbe (2024) took a sample size of 108 participants, and his stratified sampling approach highlighted that people with stable disposable income would rather invest in financial products like shares, bonds, and mutual funds.

In 2024, a survey published by IJCRT highlighted Indian investors and their views on mutual funds. A valuation of 500 individuals demonstrated that one with more salary awareness often sees mutual funds as a safe and profitable investment, especially because of its user-friendly, professional management and long-term potential.

Besides, the mutual fund industry has been progressing steadily, with better awareness, digital access, and investor-friendly regulations, thanks to technology. As mentioned by AMFI (2025), assets under management (AUM) are growing. Business Standard (2024) also detected a sudden surge in SIP investments, which showed disciplined investing behavior.

An early study by Chakrabarti and Rungta (2000) focused on how mutual funds attract investors mainly because of their simplicity and various benefits. Recently, Singh and Yadav (2021) noticed that growing income levels and financial literacy have shifted people's mindsets from fixed deposits to mutual funds.

A study by Arshiya and Gomathi (2024) established that salaried individuals, particularly those with a firm income, often prefer to invest in SIPs because of their affordability and potential for long-term gains. Additionally, Gupta and Sharma (2022) found that financial knowledge and income influence people for SIP adoption but not to an extent. People's hesitancy persists because of risk concerns.

Levels of Income appear to make an impact on individuals' investment decisions as well. Well- paid ones typically devote a bigger portion of their excess cash to financial planning, from the point of view of Nair and Iyer (2023). Though people with lower or middle-income brackets favor more liquid assets.

Singh and Verma (2023) observed that individual willingness to invest in SIP contributions increases as their leftover income (income after deducting tax and expenses) or disposable income increases. But during uncertainty or unpredictability, this can change, and individuals may pause or make a lesser contribution towards SIP. As per Friedman's (1957) Permanent Income Hypothesis, rather than focusing on short-term earnings or gains, people should focus more on long-term return while making investment decisions. Many studies in India support this statement. Bansal and Kumar (2023) state that people with higher incomes are more likely to stay consistent in their SIP investments, highlighting how financial health is important.

A study done in Pune concentrates on Millennials. Nikalje (2022) reveals that the likelihood of investment in mutual funds, life insurance, and other investment outlets are more for those who are financially stable or people with higher income. The study reveals how factors like financial health, financial awareness, and education influence the investment decision. Lusardi and Mitchell (2024) perceive that the educational factor also influences the investment decision in mutual funds. Highly educated people tend to invest their money in mutual funds. In India, Roy and Chatterjee (2022) notice that digital investment platforms help investors, especially middle-class investors, to invest in mutual funds, which increases their participation. Sharma and Prasad (2022) state that individual dependency on financial advisors is different with their multiple income levels.

Investment behavior is also influenced by factors like age, gender, and occupation. Sharma and Gupta (2021) reveal that higher ages prefer more stable investments like fixed deposits and government schemes, while individuals of young age, including Gen Z or millennials, are more open towards mutual funds for a longer time due to their higher risk appetite. Mehta and Sharma (2022) provide that when professional income level grows, they are more likely to shift their investment from basic savings to mutual funds that provide higher returns.

Goyal and Joshi (2020), while Reddy and Rao (2021) observed economy stability and income level also affects the individual's investment choices like people with more stable income are likely to stay consistent with their investments but people who are not that stable become cautious while there is any instability or uncertainty in the economy.

Kaur and Kaurs (2020) analysis on Punjabi's saving and investment behavior disposable income plays a major role while deciding whether to invest or not in financial assets.

According to Rahman and Gan (2020), for investors of Generation Y, both knowledge or literacy about financial instruments and disposable income are important. This influences their decisions. Young investor with higher earnings believes in diversifying their portfolios.

Gupta-Mukherjee (2020) observed that when people have low disposable income, they are more cautious about their investments and also while making any investment decisions.

3. METHODOLOGY

Research Design

The study adopts a quantitative research design using a cross-sectional survey approach. It is descriptive and analytical in nature, aimed at understanding the relationship between individual leftover means the income left after paying taxes, and generic expenses also known as disposable income, and mutual fund investment decisions, including the moderating effect of demographic factors.

Research Hypotheses

- **H1:** There is a significant relationship between disposable income and the likelihood of investing in mutual funds.
- **H2:** There is a significant impact of disposable income on the amount invested in mutual funds.
- **H3:** Demographic factors significantly moderate the relationship between disposable income and mutual fund investment decisions.

Population and Sample

- **Target Population:** Individuals residing in **Mumbai**, India, who have invested or are currently investing in mutual funds.
- **Sample Size:** 102 respondents
- **Sampling Technique: Non-probability convenience sampling** was employed, targeting accessible mutual fund investors through online forms.

Data Collection Method

- Primary data was collected using a **structured questionnaire**, distributed digitally. The questionnaire covered:
- Demographic information (age, gender, education, occupation)
- Income brackets and tracking of disposable income
- Investment frequency, instruments, and allocation
- Perceptions of risk, return, and financial goals

Variables Used in the Study

- **Independent Variable:**
  - Disposable Income (measured through annual income brackets)
- **Dependent Variables:**
  - Investment Likelihood (how frequently one invests in mutual funds)
  - Investment Amount (percentage of total investments allocated to mutual funds)
- **Moderating Variables:**
  - Age
  - Gender
  - Educational Qualification

  - Occupation

Tools and Techniques for Data Analysis

- Chi-Square Test – for association between categorical variables.
- One-way ANOVA – to evaluate differences in investment amount across income groups.
- Moderation Analysis (Interaction Effects in Logistic Regression) – to determine the role of demographic factors in the income-investment relationship
- A significance level of 5% ($p < 0.05$) was used to determine the statistical validity of the findings.

4. LIMITATIONS

While this research provides valuable insights, it has some limitations:

This paper study only focus only on Mumbai and the findings of these paper is only applicable to Mumbai city. The size of the sample is 102 only offering an initial understanding of investment behaviour. A large size of the sample will make the study more relevant to a broader population. The behaviour of an investor keeps changes over time due to economic conditions, government policies, or market fluctuations.

Data Analysis

1. **To explore the link between individual disposable income and the likelihood related to mutual fund investment decisions** the statistical test used is the **Chi-Square Test**

5. RESULTS

- **Chi-Square Test** between income category and investment frequency:

o $\chi 2 = 10.85$, df = 16, **p = 0.8186** (Not significant)

Interpretation: The tests revealed no significant statistical link between income level and the likelihood of participating in mutual funds as an investor. This suggests that individuals across income brackets show similar tendencies in choosing to invest in mutual funds or not. Income, by itself, has no major impact on the likelihood of investment.

2. **To analyze how changes in disposable income impact the amount individuals allocate to mutual fund investments**

Statistical Tests Used:

ANOVA (Analysis of Variance)

Results:

- ANOVA comparing income groups with investment amount categories:

  F = 2.731, **p = 0.0479** (Statistically significant at 5% level)

Interpretation: This result indicates a significant difference in the amount regarding mutual fund investments across different income levels. Higher-income groups tend to invest a greater proportion of their disposable income in mutual funds. This finding supports the hypothesis that increased disposable income positively influences the level of investment.

3. **To explore the function of demographic factors (such as age, education, gender, and occupation) in moderating the association between disposable income and mutual fund investment decisions**

Statistical Tests Used:

Logistic Regression with Interaction Terms

Moderators and Results:

- **Age:**
  - LLR = 2.676, **p = 0.4443** (Not significant)
- **Education:**
  - LLR = 3.505, **p = 0.3202** (Not significant)
- **Gender:**
  - LLR = 0.154, **p = 0.9847** (Not significant)

- **Occupation:**
    - LLR = 2.342, **p = 0.5046** (Not significant)

Interpretation: None of the demographic factors tested (age, education, gender, occupation) showed significant moderating effects on the connection between salary and mutual fund investment likelihood. This implies that the result of income on investment behavior is consistent across demographic groups. Demographic characteristics do not meaningfully alter how income influences mutual fund investment decisions in this sample.

Key Findings

- Income does not have a major impact on the likelihood of related mutual fund investment decisions
- Income does significantly affect the amount allocated to mutual funds
- Demographic variables do not moderate the income-investment relationship

These results suggest that while disposable income impacts how much individuals invest, it does not predict whether they invest at all, nor is this effect shaped by demographic traits. Future research could explore psychological or behavioral variables (e.g., risk tolerance, and financial literacy) as potential influencing or moderating factors.

6. CONCLUSION

This research set out to examine how individual disposable income influences investment behavior under mutual funds schemes, specifically focusing on two key aspects: the tendency toward investing and the value invested. Using a quantitative research approach, this study analysed data from 102 respondents in Mumbai with the help of statistical tools like Chi-Square tests, ANOVA, and logistic regression to examine the relationship between disposable income and mutual fund investments.

The findings provide valuable insights into how disposable income impacts mutual fund holdings. The Chi-Square test results showed that disposable income does not significantly determine whether a person invests in mutual funds or not. People across different income levels had similar tendencies when it came to deciding whether to invest. This suggests that factors like psychological traits, personal financial goals, investment awareness, and access to financial advisors have a stronger influence on mutual fund participation than just income.

However, when it comes to the amount invested, disposable income plays a crucial role. The ANOVA test confirmed a statistically significant link between income levels and the amount invested in mutual funds. This means that while income may not decide who invests, it certainly affects how much they invest. Higher-income groups are likely to assign a larger part of their disposable income to mutual fund investments, highlighting that financial capacity facilitates the ability to commit more substantial amounts toward wealth-building avenues like mutual funds. The study also examined whether gender, education, and occupation influenced the relationship between disposable income and mutual fund investment behavior. However, logistic regression analysis showed that none of these demographic factors had a significant impact in moderating this relationship. This suggests that the effect of disposable income on the amount invested remains consistent across different age groups, genders, education levels, and occupations. In simple terms, regardless of a person's background, their disposable income determines how much they invest, but it doesn't affect their decision to invest in the first place. In conclusion, the research establishes that while disposable income plays a key role in determining investment amounts, it does not strongly influence the decision to invest in mutual funds. Moreover, demographic factors do not significantly alter this relationship, meaning investment behavior follows a uniform pattern across different social groups. This emphasizes the need for further exploration of psychological and behavioural factors, such as risk tolerance, financial literacy, investment awareness, and financial planning habits, to gain a deeper understanding of investment behavior. From a practical standpoint, these insights can help policymakers, fund managers, and financial advisors create better financial education programs and investment strategies. By focusing on behavioural influences, they can encourage more informed and strategic investment decisions, ensuring investors make choices that align with their financial goals.

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