

IMPACT OF CHANGE IN INTEREST RATES ON INVESTMENTS - WITH SPECIAL REFERENCE TO CHENNAI CITY

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Abstract:

Globalisation and Foreign Direct Investment (FDI) are critically essential to all developed and developing economies. In fact, these crucial components are also necessary for the success of today's underdeveloped economies. Any nation can benefit from factors' such as easy access to markets, new ideas, and technological advancements. Today, every nation on earth is looking for foreign and international investors. Recent trends indicate that India is currently only second to China in terms of favoured investment locations. The developing nations vying for investment are China, Singapore, Malaysia, Russia, and Brazil. Most of them are vying with the USA and Europe for contracts. Globalisation and FDI are critical elements in the development of industrialised, emergent, and undeveloped economies. The root causes are: the introduction of novel products, novel skills, readily accessible markets, and modern technology to the host countries. Every country on earth makes a substantial contribution to the encouragement of international / out-of-country investors and their investments. Interest rate is the main factor influencing investments. Interest rates in the contemporary environment fluctuate due to the nation's economic position and world markets. The impact of fluctuating interest rates on investments is the main focus of the current study.

Keywords: Globalization, Investment and Interest rate.

Introduction

Investment is the act of parting with money so that another person or organisation may use it profitably. Giving something away, borrowing money, or increasing the debt or equity (ownership capital) of a corporate or non-corporate business entity are all examples of investment. In general, investing implies converting money, providing for savings or liquidity, and ultimately accept a risk that includes a doubt about the true return on investment, a wait period and related expenditures, the safety of funds, and the risk of return fluctuations. To make a proper investment that incorporates both risk and reward, the investor must thoroughly investigate various investment options, their risk and return characteristics, and appropriately project or foresee one's preferences. The cost of borrowing money, or, to put it another way, the compensation for the risk and service associated with lending money, is the interest rate. It encourages borrowing, lending, and spending in both scenarios, which keeps the economy expanding. Although market interest rates are always changing, different loan types offer a range of interest rates. Whether one is a lender, borrower, or

both, it's imperative to understand the reasons behind these alterations and deviations. They also have a big impact on the rare metals market, which includes trading of silver stocks.

Objectives of the Study

The study has the following objectives:

- To understand the investing practices of the respondents.
- Determine the effect of conventional investment pattern on the saving and investing habits of the respondents.
- To determine the respondents versatility in choosing from the various investing alternatives.
- To investigate the factors affecting the respondents' investment decisions.
- To highlight the impact that interest rate changes have on respondents' investments.

Review of Literature

The Sierra Leonean government has made great efforts to adopt policies that are favourable to international investment after the end of civil war in 2001. **A. Faroh et al. (2015)** investigated how interest rates affect Foreign Direct Investment (FDI) inflow to Sierra Leone. Econometric methods were used to do multiple regression time series data for the years 1985 to 2012, and diagnostic tests were carried out to make sure the model fit, was free of spurious data, and generated useful findings. The key findings were that, with positive significant indicators in Sierra Leone, currency rates and trade openness are the main determinants influencing FDI flow. It was shown that other factors like inflation, GDP, and interest rates only had a small impact on fluctuations in the flow of FDI. Finally, concurring with the null hypothesis, which states that high interest rates have no impact on FDI flows into Sierra Leone. As a suggestion for policy, the government ought to support the private sector in utilising domestic resources for profitable investment, promote trade openness, fight corruption, upgrade the energy and infrastructure to attract foreign investment, keep inflation at or below a single digit level, encourage production by boosting employment to increase GDP, and finally restrain exchange rate volatility.

Ojong, C. M., et al. (2015) examined the factors influencing the FDI influx to Nigeria. The effect of Nigeria's market capitalization, trade openness, gross fixed capital formation, and level of economic activity on the entrance of foreign direct investment were carefully assessed. An ex-post facto research design was employed in the study. Time series data were obtained from the CBN statistics Bulletin using the desk survey method, and the data was analysed using the ordinary least square multiple regression statistical approach. Combining the use of ADF and PP unit root allowed all to test the time series' stationarity. A correlation matrix was also used to look at how each variable related to the others. According to the OLS findings, market capitalization, gross fixed capital formation, and FDI inflow in Nigeria have a substantial inverse relationship. A trade policy that is to open-minded discourages foreign direct investment in Nigeria. Finally, Nigeria's capacity to draw FDI is significantly influenced by the pace of economic expansion. All variables were stationary at the initial difference, according to the ADF and PP tests. With the exception of market capitalization, gross fixed capital creation, and level of economic activity, which had a modest link with FDI, all other variables were again strongly associated based on the correlation

matrix. Based on these findings, the study recommends that growth-promoting techniques should be created and promoted. The government should also put its plans for increasing loans, enhancing infrastructure, ensuring a steady supply of power, and developing effective road networks into action. To prevent border mismanagement and porosity, Nigerian Customs and Immigration officials need to be trained and developed. Social upheaval, corruption, and macroeconomic instability should be avoided, and an investment-friendly environment should be promoted in Nigeria in order to boost investors' bravery and confidence.

Using the rolling-window method, **Liu, T. Y et al. (2022)** investigated the non-linear relationship between interest rates and exchange rates in China and the United States. It also examined the uncovered interest rate parity (UIP) and capital market theory over the entire time period and sub periods in order to reconsider numerous economic links between China and the United States. The findings imply that the latter's interest rate adjustment has a greater impact on China/US exchange rate volatility than China's interest rate adjustment. Furthermore, changes in the China/US exchange rate have a little greater impact on US interest rates than on Chinese interest rates. The findings reveal that the interest rate parity theory does not hold for the entire sample period but may hold for sub periods. The results provide a reference for the steady implementation of RMB internationalization.

Fisher, L., et al. (2017) investigate the investing performance of a long-term, high-grade bond index using the same approach of analysis as that used for common equities. It demonstrates that long-term bonds provided a lower average return and a more than proportionately lower dispersion than a well-diversified portfolio of common stocks listed on the New York Stock Exchange. Given a specific time horizon, the chapter offers an optimal strategy for bond investing. It examines a strategy for using the uniqueness of bond promises to almost eliminate the riskiness of high-grade bond investments induced by unexpected interest rate fluctuations. The chapter also demonstrates how the usage of high-quality bonds might affect an asset that is practically risk-free from interest-rate swings throughout the holding periods of five, ten, and twenty years. It implies that the variability of bondholder returns is substantially lower than the average variability of stockholder returns.

Research Design

Making decisions on the what, where, when, how much, and how it will be conducted makes up a research design. A research design is the arrangement of criteria for data collecting and analysis with the aim of achieving a balance between procedural economy and investigational relevance. The study design serves as both conceptual framework and the manual for gathering, measuring, and analysing data during the research process. This investigation used a descriptive research design. The survey is conducted among the people of Chennai. There are several respectable companies in Chennai. Thanks to the entry of these trustworthy companies, the financial situation of many young, and educated people has improved. Due to the study's practical difficulties, a 450-person sample size was initially chosen. The final sample in the Chennai region had 402 respondents, as the remaining 48 questionnaires were useless due to missing data. The method of convenience sampling was employed. The study is built on both primary and secondary data. The

obtained data was organised, looked over, and computed. Statistical analysis tools were employed for the data analysis. The techniques used include percentage analysis, the Chi-square test, the ANOVA, and correlation.

Results and Discussion

Association Between Source of Investment Information and Educational Qualification

The association between source of investment information and educational qualification was analysed by chi square test and cross tabulation analysis. The result obtained by the analysis is presented in the following table.

TABLE 1

Cross Tabulation Analysis: Educational Qualification and Source of Investment Information

Source: Computed data

Source of Investment Information	Educational Qualification					Total
	HSC	UG	PG	Professional	Others	
Friends	10	20	27	22	5	84
Relatives	10	23	12	10	7	62
Newspaper	7	15	28	25	1	76
Consultants	4	9	6	17	2	38
Others	7	7	3	3	6	26
TV	0	2	7	2	2	13
Ads	1	4	2	1	0	8
Internet	3	17	12	6	0	38
No response	1	11	21	23	1	57
Total	43	108	118	109	24	402

The

impact of educational background on information source for investments is seen in the above table. While respondents with undergraduate degrees were influenced by relatives, those with postgraduate degrees and professionals are influenced by newspapers, and respondents with other educational levels by their relatives for investment information. The respondents with higher secondary degrees get influenced by their friends and family members.

Chi Square Test: Educational Qualification and Source of Investment Information

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-square	81.449a	32	0.00
Likelihood Ratio	81.544	32	0.00
N of Valid Cases	402		

Source: Computed data

The above table reveals the impact of educational qualification on the source of investment information. Since P value is 0.00, there is a significant association between educational qualification and source from where investment information is obtained.

Table 2

Correlation Among the Factors Affecting Investors' Perception

Factors	Correlation	Perception Towards Savings and Investment	Type of Investment	Investment Behaviour	Income on Investments	Factors Determining Savings.
Perception Towards Savings and Investment	Pearson Correlation	1	.592**	.319**	.100*	.309**
	Sig. (2-tailed)		.000	.000	.045	.000
	N	401	401	401	401	401
Type of Investment	Pearson Correlation	.592**	1	.312**	.025	.463**
	Sig. (2-tailed)	.000		.000	.613	.000
	N	401	402	402	402	402
Investment Behaviour	Pearson Correlation	.319**	.312**	1	-.077	.199**
	Sig. (2-tailed)	.000	.000		.124	.000
	N	401	402	403	402	402
Income on Investments	Pearson Correlation	.100*	.025	-.077	1	.271**
	Sig. (2-tailed)	.045	.613	.124		.000
	N	401	402	402	402	402
Factors Determining Savings	Pearson Correlation	.309**	.463**	.199**	.271**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	401	402	402	402	402

** Correlation is significant at the 0.01 level (2-tailed)

* Correlation is significant at the 0.05 level (2-tailed)

Source: Computed data

It is abundantly clear from the above table that employee investors' perceptions of savings and investing are significantly correlated with investment type (0.592), investment behaviour (0.319), factors determining savings (0.309), at a significance level of 0.01 and savings motive (0.100), at

a significance level of 0.05. This suggests that there is a positive relationship between respondents' perceptions of savings and investment and the factors that influence investment. The type of investment is significantly correlated with other factors at the 0.01 level of significance, including perception of savings and investing (0.592), investment behaviour (0.312), and factors influencing savings (0.463), but not with income from investments (0.025). Regarding the analysis of investment behaviour, there is statistically no significant link between income from investments (-0.077) and savings and investment perception (0.319), investment type (0.312), and factors driving savings (0.199). Therefore, it can be shown that the respondents' perspective of their own investment behaviour is reliant on how they view saving and investing, the type of investment they make, and the variables that influence their savings. Similar to a positive correlation between income from investments and perceptions of saving and investing (0.100 at 0.05 level significance) and factors influencing saving (0.271 at 0.01 level significance), there is no relationship between the motivation for saving and the type of investment made and the way in which it is made. The factors influencing employee investors' savings established relationships between perceptions of savings and investing (0.309), investment type (0.463), investment behaviour (0.199), and savings motivation (0.271), demonstrating a favourable correlation between these perceptions.

Influence of Age on the Various Factors Affecting Investment

The age of the respondents were classified into four strata namely 20-30, 31-40, 41-50, and above 50. Only significant factors were taken into consideration while insignificant factors were left out, i.e., factors such as perception towards savings and investment, type of investment, investment behaviour, factors determining savings, income on investments were taken into consideration. The influence of this independent categorization were analysed against various factors affecting investors' investment. The result obtained by ANOVA is presented in the following table.

Table 3
ANOVA: Age and its Impact on the Factors Affecting Investment

Factors	Analysis on Age	Sum of Square	Df	Mean Square	F	Sig.
Perception Towards Savings and Investment	Between Groups	332.890	3	110.963	2.562	.055
	Within Groups	17195.000	397	43.312		
	Total	17527.890	400			
Type of Investment	Between Groups	123.090	3	41.030	.905	.439
	Within Groups	18048.702	398	45.348		
	Total	18171.791	401			
Investment Behaviour	Between Groups	923.597	3	307.866	1.883	.132

	Within Groups	65073.639	398	163.502		
	Total	65997.236	401			
Factors Determining Savings	Between Groups	135.940	3	45.313	1.706	.165
	Within Groups	10568.558	398	26.554		
	Total	10704.498	401			
Income on Investments	Between Groups	177.673	3	59.224	2.471	.061
	Within Groups	9538.804	398	23.967		
	Total	9716.478	401			

Source: Computed data

The aforementioned table shows how age affects a variety of respondents' influencing factors, including perceptions of saving and investing ($F=2.562$, $P=0.055$), investment type ($F=0.905$, $P=0.439$), investment behaviour ($F=1.883$, $P=0.132$), factors determining savings ($F=1.706$, $P=0.165$), and income from investments ($F=2.471$, $P=0.061$), none of which differ significantly with respect to age at the 5% level. The researcher was prompted by this to investigate mean-wise comparison of independent variables and their categories. The descriptive table unequivocally demonstrates that there are no appreciable differences in how respondents perceive saving and investing across various age groups. The type of investment among the various age groups is not statistically significant. Similarly, it is noticed that there are no appreciable differences in investment behaviour among the various age groups. The differences in savings and investment income between different age groups are not statistically significant. Because of the different factors affecting investment, respondents of all ages feel motivated to reply.

Major Findings

- The age range of 20 to 30 years had the highest percentage of respondents (40%), followed by the age range of 41 to 50 years (24%).
- Of the 402 respondents, 256 (64%) were men and 146 (36%) were women who provided their responses.
- It was noticed that many respondents - 241 (60%) were married, 150 (37%) were single, and 230 (57%) had a family of 4 to 6 people.
- Majority of the respondents (57%) were from cities. Town and village residents made up 25% and 18%, respectively.
- The respondents (29%) held postgraduate degrees, while the remaining respondents had undergraduate, professional, or school-level degrees.
- According to the report, 339 respondents (84%) work for private businesses, while 63 (16%) work for the government.
- Many of the respondents (34%) have fewer than five years of experience, and (25% and 32%) work in the service and other sectors, respectively.

- The study revealed that most of the respondents were middle-level employees working in the organizations.
- Of the 402 respondents, 48% earn between Rs. 10,000 and Rs. 30,000, and 44% of families have two or more wage earners in their family.
- According to the poll, many respondents are aware of several investment options, including gold, insurance, and provident funds. There are both benefits and drawbacks in these investments.
- The extended investment horizon and inadequate awareness of available investment options are the main source of discomfort and annoyance. However, the respondents chose to make long-term investments.
- Tax savings are a crucial consideration when making small investments and the source of investment knowledge and age are significantly correlated with one another.
- The chi-square test was used to assess the relationship between the source of investment information and educational background, and it revealed that there is a significant relationship among them. There is a considerable correlation between the respondents' degree of employment and their savings percentage.
- Correlation between employee investor perception factors reveal a favourable association between respondents' perceptions of saving and investing and the factors influencing their investments.
- Savings motivation does not affect investment behaviours, but at a level of 0.05, it does affect perceptions of saving and investing.
- The effect of age on respondents' perceptions shows that there is no discernible relationship between respondents' attitudes towards savings and investing and their age.
- The primary risk-free investment for investors in the organization is a bank savings account and the risky investment is chits.

Suggestions

The study's findings led to the following recommendations:

- Minimising investment risk will encourage respondents of higher age to make larger investments.
- The numerous investment alternatives and their relative advantages and disadvantages must be made known to the respondents to take timely wise investment decisions.
- Employee investors should be knowledgeable about their possibilities and be familiar in various routes which require more and more training on a continuous basis. Before making an investment, they must seek counsel.
- To stimulate investment across a variety of sectors, especially among the earning respondents, the government should offer additional tax advantages with less paperwork in the investment procedure.

- Two-earner households tend to invest more money. Therefore, families with two or more than two income earners should speak with financial consultants or advisors before making an investment.
- The investor guidelines must be made known to each investor/respondent by their organization. The knowledge of online investments can be enhanced by giving them follow-up SMS or postal updates.
- The respondents should employ a variety of motivating factors to move the remaining 47% of respondents into the committed cluster.
- Respondents should concentrate on medium-term investments rather than long- and short-term ones. The volatility of interest rates on investments must be kept to a minimum. To prevent interest rate volatility, respondents might choose an investing strategy with a set interest rate.

Conclusion

The study's findings indicate that respondents are happy with their investing habits and that they are following the right investing principles. Existing respondents want to increase their holdings, and they are encouraging their peers to change their way of thinking and act about investing. Because interest rate fluctuations have a bigger influence on investments, only the respondents are changing their investment strategies. The study's findings indicate that the respondents' perceptions are one of many factors that contributed to the investments appreciation. A shared investor group perception will increase the effectiveness of investments. By saving money and investing it in a range of financial instruments, respondents not only provide labour to their own organisations but also financial support for the expansion of the national economy. This habit and attitude may be developed through improving their knowledge and awareness of fresh and innovative investing opportunities, such as investments in the commodity market, futures and options, and other financial innovation products. This will benefit the economy as a whole and in specific increase yield for the employee investors.

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