

Report On
Financial Literacy: How it impacts Capital Market and Stock
Returns in Bangladesh

By

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19104185

An internship report submitted to the BRAC Business School in partial fulfillment of the
requirements for the degree of
Bachelor of Business Administration

BRAC Business School
BRAC University
18th August, 2022

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Declaration

It is hereby declared that

1. The internship report submitted is my own original work while completing my degree at BRAC University.
2. The report does not contain material previously published or written by a third party, except where this is appropriately cited through full and accurate referencing.
3. The report does not contain material that has been accepted or submitted, for any other degree or diploma at a university or other institution.
4. I have acknowledged all main sources of help.

Student's Full Name & Signature:

Anika Anzum Sabi
19104185

Supervisor's Full Name & Signature:

Mr Riyashad Ahmed
Assistant Professor, BRAC Business School
BRAC University

Letter of Transmittal

18th August 2022

To

Mr Riyashad Ahmed

Assistant Professor, BRAC Business School.

BRAC University.

Mohakhali, Dhaka-1212.

Subject: Submission of internship "report on Financial Literacy: How it impacts Capital Market and Stock Returns in Bangladesh"

Sir,

With due respect and pleasure, I would like to inform you that I am submitting my internship report on "Financial Literacy: How it impacts Capital Market and Stock Returns in Bangladesh", under your supervision for the partial fulfilment of the Internship Course for our BBA Program. I have completed my internship at CSR Axis, private marketing, and then chose an open topic for my report.

Whilst working on this internship report I learned the importance of financial literacy, and how it impacts our daily lives and investment decisions. I have written this report after thorough research and by implementing academic learnings.

Finally, I want to show my appreciation to have you as my supervisor for this internship report. I am eagerly waiting for your valuable feedback, hopefully, I will be able to exceed your expectations and enhance my knowledge furthermore.

Sincerely,

Anika Anzum Sabi

ID: 19104185

BRAC Business School, BRAC University

Date: August 18, 2022.

Non-Disclosure Agreement

This agreement is made and entered into by and between CSR Axis and the undersigned student of BRAC University, Anika Anzum Sabi, Student ID- 19104185 of the BBS Department.

Acknowledgement

First of all, I would like to express my utmost gratitude to Almighty Allah for granting me the knowledge and skills to undertake and successfully complete my internship report.

Second, I am grateful to my supervisor Mr Riyashad Ahmed, Assistant Professor, BRAC Business School for allowing me to work on the report, giving his continuous guidance and encouragement, and showing great patience throughout the time. I am also thankful to Mr Tahmid Bin Habib, Manager, Admin & Compliance at CSR Axis Ltd. for guiding me through my internship working period. He showed great encouragement and patience, I was able to learn a great deal about digital business marketing during my time at the workplace.

Lastly, this report would not have been possible if not for the hard work, persistence, and cooperation of the researchers and writers. We would like to extend our sincerest appreciation to the following people who helped accomplish the investigatory report. They are the people who contributed to the success of this endeavour.

Executive Summary

In this report, I have given all the basic internship details including information about the student, my supervisor, and the job responsibilities that I had to perform during the 3 months at CSR Axis Ltd. agency. After that, I start my open topic report on "Financial Literacy: How it impacts Capital Market and Stock Returns in Bangladesh". The first chapter is the introduction where I discussed what financial literacy is and its necessity in our lives. The second chapter contains research on how many and the level of financially literate people are. The third chapter contains the methodology, the methods used for research, and the limitation of the study. In the fourth chapter, I have talked about investment behaviour and showed it in an Ethnographic Decision Tree Model, the effect of the Covid- 19 pandemic on the capital market and the stock market. Lastly, the fifth chapter contains the recommendations and conclusion.

Financial literacy has become a crucial necessity for every individual in every country, for effective investment, budgeting, and saving choices, it is a basic requirement for everyone to avoid financial problems. People are becoming more interested in investing in the capital market and stock market, however, most of these people are financially illiterate. As the world is becoming more globalized people are increasing international trade, though Bangladesh's stock market is still not integrated with the global market it will be in the future so investing without proper financial knowledge will bring undesirable outcomes. The investors of Bangladesh make impulsive investment decisions on rumours, news, suggestions, and asymmetric information, they first need to properly investigate the market and understand the trends to make accurate predictions and then finalize their investment decisions. According to studies, lack of proper regulatory framework and monitoring, and lack of investor knowledge and rationality are the leading causes of the inefficiencies of the Dhaka Stock Exchange (DSE) and the Chittagong Stock Exchange (CSE). I have included statistics and graphical representations in this report to present the data collected for this research. To truly understand the situation in Bangladesh I have compared data of other countries on financial literacy and how they are impacted as well. This research report aims to spread awareness about financial literacy and how it impacts the capital market and the stock market in Bangladesh so that the government, education board and people will know the importance of education on finance.

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List of Acronyms

BSEC- Bangladesh Securities and Exchange Commission BSEC

S&P- The Standard and Poor's

RPDC- Research and Professional Development Center

DSE- Dhaka Stock Exchange

CSE- Chittagong Stock Exchange

SEC- Securities and Exchange Commission

PISA- Program for International Student Assessment

OECD- Organization for Economic Co-operation and Development

EDTM- Ethnographic Decision Tree Model

Chapter 1: Overview of Internship

1.1 Student Information

Name: Anika Anzum Sabi

ID: 19104185

Program: Bachelor of Business Administration

Major: Finance

Minor: Human Resource Management

1.2 Internship Information

Period: 3 Months (8th March 2022 to 8th May 2022)

Company Name: CSR Axis Ltd.

Department: Brand & Communication

Address: House 88, Road 17/A, Block E, Banani, Dhaka.

Office, level 5.

Internship Company Supervisor's Information

Name: Tahmid Bin Habib

Position: Manager, Admin & Compliance

1.3 Job Scope

Job Description/ Duties/ Responsibilities:

- Write slogans and captions: I had to write captions for social media posts relating to products, food menus, seasons, special days, and festivals. I started with writing captions for Drobboo, then was given the opportunity to write content for TWELVE and Time Out as well.
- Creating concepts: I had to create concepts for social media posts, in accordance with the client's requirements. My first concept creation was for 26th March, I had to explain to the graphic designers how I wanted the post to look and what text goes into the picture, then write an appropriate caption.

- Schedule media post: To create the post in advance I had to stay updated about social events, special days, and festivals. We had to prepare posts for Mother's Day, Eid, Independence Day, and more, then ask the client for approval of the post.
- Campaign Ideas: I closely worked with the clothing brand TWELVE, and participated in creating a video advert to promote the brand. Though I was able to work while the script was written I did not get to experience the process of making the video.
- Making presentation PowerPoints: I prepared PowerPoint presentations for monthly reports and meetings with clients.
- Excel work: Excel was used to keep track and calculate the number of posts made on social media every month, the amount spent for boosting those posts, and keep track of products.

1.4 Internship Outcomes

- Multitasking
- Time Management
- Scheduling
- Handling Pressure
- Professional communication
- Work out of comfort zone
- Thinking from the client's perspective

1.5 Student's Contribution

During my internship period, I worked my level best, saying no to any task and giving excuses was not an option. I tried to learn as much as possible and showed creativity and organization in all my tasks. I strictly maintained the rules and regulations of the company, such as arriving at the office on time, communicating with my supervisor and giving him daily work updates, and meeting work deadlines. Maintaining professional communication with my supervisor and colleagues. I was responsible for writing slogans and captions, brainstorming concepts for posts, make PowerPoint presentations and monthly reports. I had to also maintain the TWELVE clothing brand's Instagram account along with my supervisor, after creating the post I had to get approval from our company head and then the client, then post the content according to the scheduled time.

1.6 Benefits to the student

While doing my internship I had to schedule everything, especially as I was still studying two courses, it was difficult to maintain my lifestyle during those months and I learned how to manage time properly and organize my tasks. At work I was assigned a certain amount of work every day, my office required me to interact with different employees and clients, communication is one of the key sources in corporate life, and to get all the work done. I had to explain to the designing team what the content was so they could execute it properly. Digital marketing needs a lot of creativity and experiments, I had to work keeping in mind the client's point of view every time I created content. Each client had a style of their own for the content they wanted to post, so it was challenging to think of several ideas for the client in a short time.

1.7 Problems/ Difficulties

The agency had constricted office space, the desks were too close to one another's and the environment felt clustered. I had to often work overtime by 1 to 2 hours, and even after getting back home had to communicate about work with my supervisor till late at night. The computers and laptops were outdated, the screen would often get frozen, and the keyboards and mouse were also faulty, which made it extremely difficult to work. Though I had not faced any criticism, the head of the agency often spoke rudely and made insulting comments to the permanent employees in front of other employees.

Chapter 2: Overview of the Company

2.1 Company Profile

| | |
|-----------------|--|
| Company Name | CSR Axis Ltd. |
| Establish Year | 2016 |
| Current Address | House 88, Road 17/A, Block E, Banani, Dhaka. Office, level 5. |
| No of Employees | 8-10 (including, interns) |

2.2 Introduction

CSR Axis Ltd. started its journey in 2016 and is a digital marketing agency. They offer a wide range of services to create communications that are relevant. They are committed to creating meaningful content and strategies for digital media that produce excellent results for our loyal customers. The agency creates content like Facebook and Instagram posts, logo design, advertisement videos and more. They work with clients from various companies, some of their past were Posh Garments, Tokyo Express and others, and currently, they are working with Drobboo, TWELVE, HomeTex and others.

2.3 Methodology

The information about the agency is based on primary and secondary data. The primary data has been collected through my supervisor and my colleagues. And the secondary data is collected from the company website. All the information has been cited, except for the Vision and Mission of the agency.

2.4 Vision & Mission

Vision: We want to be the final resort marketing solution for any determined business.

Mission: In the era of digitization, the marketplace has become a place of socialization. CSR Axis is committed to assisting clients to achieve their most ambitious marketing goals and strategic communication objectives through tactical counselling, creative solutions and time-responsive service. We evaluate our success by brand awareness, increased revenue and quantifiable means mutually agreed upon between us and our clients.

2.5 Culture

CSR Axis cherish its culture and look for those who can fit within it. The culture of contented workers is encouraged by our management since it finally results in contented clients. They believe there is a bigger goal, and by working together, they can achieve it. The members of the team feel empowered and are aware that their opinions matter.

2.6 Core Values

- Integrity in deal-making
- Always being truthful
- Highest quality
- Value pricing
- Customer satisfaction
- Community and Responsibility
- Value diversity

Chapter 3: Introduction

3.1 Introduction

Financial literacy is the ability to make smart financial decisions to achieve one's financial goals. Why is Financial Literacy so important? The more financially literate a person is the better decisions they will make with their finances, thus making a more effective investment, budgeting, and saving choices, it is a basic requirement for everyone to avoid financial problems. Investors in Bangladesh have limited education in finance, making them vulnerable to financial risks, investors who lack financial literacy end up making bad decisions that may have a long-term impact on their ability to accumulate money. Financial literacy is said to have five key components: earn, spend, save and invest, borrow, and protect. A strong foundation of finance is essential for financial management, budgeting, borrowing, and investing, and with the appropriate knowledge, people can make the right decisions for successful and sustainable investments and savings. An individual is better prepared for specific financial roadblocks, when they have financial knowledge, it has become crucial to become financially literate today.

Approximately 3.0 million investors participate in the capital market in Bangladesh, however, most of them are small-time and illiterate investors. These investors are marginal because they are little to not financially literate, they rely their investments of some big-shot investors for their decisions. The investors risk their future, the stability of the capital market, and overall the nation's economic growth. This is because they lack the ability to comprehend the facts provided in financial accounts and other sources, they base their investment decisions primarily on rumours, intuitions, and emotions. As a result, there is market information asymmetry. All these occurrences have a negative impact on capital market investment decisions. The investors are unable to interpret disclosed information appropriately, and most investors are not aware of the regulations to be followed, their rights, financial risks, comparison techniques, and other sources, which lead them to make bad investment decisions.

People in Bangladesh only start to learn finance mostly when they are in college or university. Bangladesh is a developing country that aims to become a middle-income country by 2026, financial literacy plays an important role in achieving this goal. Bangladesh also faces a gender gap problem when it comes to financial services, according to statistics in 2017 the gender gap in

financial services was at 29 percent, compared to a mere nine percent in 2014. In Bangladeshi families, the men usually have a bank account but the women do not, thus they may not have any financial knowledge at all. As a result, despite rapid trends in GDP development, the nation has one of the greatest financial gender inequalities in the world. Good financial skills are required for proper management of money and the ability to identify and effectively use diverse financial skills, for better stability of the capital market and the progress of Bangladesh's economy.

3.2 Background of Study

Individuals are increasingly becoming more active in financial markets; it is growing to become more diversified and dynamic. In developed countries like the US and UK families are educated on the basics of finance to help them balance their budgets, assets, investments, and savings, safeguarding them with the ability to assess risks. The media in these developed countries play an important role in generating awareness about the importance of financial literacy, thus many schools include finance courses in their curricula. In Bangladesh there is no such policy for educating people on finance, it is only stated on Bangladesh Bank's website that people must have financial access and available financial information to make calculated financial decisions. Most people probably do not even bother to go through the available information or find it difficult to understand as do not have the basic financial knowledge.

A global poll conducted by Standard and Poor's in 2015, across 140 countries showed mixed findings on how many people are financially literate. The first-world nations like Norway (71), Sweden (71), the United Kingdom (67), and the United States (57) performed highly while third-world nations fared horribly. Bangladesh received a score of 19, with only 10 nations scoring lower. India (24) and Pakistan (26) scored better than us, but Bhutan (54) and Myanmar (52) were clearly out of reach. Different demographics have shown varying levels of financial literacy, with men being more knowledgeable than women, indicating a gender gap in education. Although many business graduates graduate each year, they only make up a small number of investors, and still many acts rashly and don't use their expertise, and make impulsive choices. This dismal result demonstrated how little the average Bangladeshi could understand basic financial literacy ideas. Bangladesh faces systematic and cultural barriers that limit the opportunities for women to use financial services; the same is true for low-income groups and other excluded groups.

The Bangladesh stock market has a lot of small and unskilled investors. They have limited to no financial literacy and primarily make their decisions on intuitions, rumours, or advice from relatives and friends. Most investors are unable to interpret disclosed information appropriately and are unaware of the regulations to be followed, their rights, financial risks, comparison techniques, and other sources, which lead them to make bad investment decisions. The capital market is growing to become more diversified and dynamic, it is important for potential international portfolio investors of Bangladesh to understand the degree of interdependence and correlation between the world's major stock markets, as in the near future Bangladeshi investors will directly be able to invest on foreign markets. In order to build a financially literate society as part of sustainable development goals, financial education is important to empower the nation with the right knowledge and skills for making responsible financial decisions.

3.3 Research Questions

This research effort to search for answers to the following questions-

1. Why do we need financial education?
2. How is the lack of financial education impacting investors' behaviour?
3. What are the impacts of investment behaviour in the capital market and stock returns?
4. How to make financial education more accessible?

Chapter 4: Literature Review

4.1 Understanding Finance

Before we proceed with the discussion of how financial literacy affects investment behaviour, we must understand what and how much Bangladeshis know about financial literacy. Bangladesh has no national policy for financial literacy. Though there are policy statements on Bangladesh Bank's website on the need for people to have financial access and to share financial information to make responsible financial decisions, most people do not feel obliged to go through those policies and understand them before making a financial decision. People in Bangladesh may not even be able to answer some basic financial terms if questioned. In August and September 2022, a research was conducted by S&P regarding financial literacy in Bangladesh. The RPDC conducted two rounds of surveys throughout Bangladesh on financial literacy using the random sampling technique, a total of 3,120 responses were recorded. The respondents had to answer 5 basic questions relating to knowledge of numeracy, interest, inflation, and risk diversification. The results of the survey, for financial literacy levels of various Bangladeshi demographic groups, were as shown below.

| | Number of Respondents | Average Financial Literacy Scores | Standard Deviation |
|-------------------|-----------------------|-----------------------------------|--------------------|
| GENDER | | | |
| Male | 2271 | 25.2% | 23.6% |
| Female | 849 | 22.0% | 23.6% |
| AGE GROUP | | | |
| Less than 20 | 150 | 20.9% | 22.5% |
| Between 21 and 30 | 1347 | 26.8% | 23.8% |

| | | | |
|---|------|-------|-------|
| Between 31 and 40 | 869 | 23.6% | 23.3% |
| Between 41 and 50 | 456 | 23.3% | 23.5% |
| More than 50 | 298 | 18.8% | 23.0% |
| EDUCATION | | | |
| Below SSC | 928 | 15.1% | 20.2% |
| SSC or Equivalent | 502 | 22.7% | 22.1% |
| HSC or Equivalent | 632 | 25.9% | 22.6% |
| Bachelor's or Equivalent | 710 | 33.1% | 24.6% |
| Master's and above | 348 | 30.8% | 24.6% |
| BUSINESS EDUCATION | | | |
| None | 2613 | 23.2% | 23.0% |
| Less than 1 year | 248 | 29.8% | 24.6% |
| Less than 2 years | 85 | 28.9% | 26.1% |
| More than 2 years | 159 | 31.9% | 27.5% |
| COMMUNITY TYPE | | | |
| A village or rural area | 993 | 19.7% | 21.3% |
| A small city | 1188 | 30.5% | 24.3% |
| A large city (with over 500,000 people) | 722 | 22.5% | 23.4% |
| Native to Dhaka | 217 | 18.3% | 23.0% |
| MARITAL STATUS | | | |
| Single | 1137 | 28.2% | 24.1% |
| Married | 1922 | 22.4% | 23.0% |

| | | | |
|--|------|---------|-------|
| Separated/ Divorced | 35 | 19.4% | 23.5% |
| Widowed | 26 | 10.4% | 20.3% |
| OCCUPATION | | | |
| Unemployed | 98 | 17.198% | 21.9% |
| Housewife | 302 | 11.7% | 19.5% |
| Student | 529 | 29.5% | 23.8% |
| Self- employed/ farmer | 440 | 19.3% | 22.6% |
| Private Job Holder | 497 | 29.3% | 25.3% |
| Government Job Holder | 133 | 33.8% | 23.2% |
| Business | 1121 | 24.7% | 22.3% |
| INCOME | | | |
| Unemployed | 641 | 22.0% | 23.3% |
| Less than 15,000 Taka | 1207 | 20.5% | 22.7% |
| 15,000 to 30,000 Taka | 897 | 28.7% | 23.8% |
| 30,001 to 50,000 Taka | 286 | 29.9% | 24.1% |
| 50,0001 Taka or more | 89 | 32.7% | 21.7% |
| Average Financial Literacy Score = 24.6% | | | |

Table:1 Financial Literacy Score Distribution (Research & Professional Development Centre, RPDC, BRAC Business School)

The survey identified that people with more years of education had financial knowledge, but the surprising fact was that master's degree graduates scored lower than bachelor's degree graduates.

Elderly people and SSC students had lesser comprehension of financial literacy concepts, and the people with business education had the highest financial literacy scores and their scores for standard deviation also kept increasing with more years of business education. A surprising finding through the survey was that Dhaka city respondents scored lower than other cities, villages, or rural areas. It is a concerning matter as Dhaka is the symbolic heart of commerce, innovation, education, and finance. Single respondents scored more compared to married respondents, though it was assumed that married respondents would score higher as they are more responsible to make safe financial decisions. Though because of the low sample size, the survey was said to be not fairly executed. However, the highlight of the survey was the positive relationship between income and financial literacy, respondents of the highest income group scored the highest in the survey.

Recently, I conducted a small survey using Google form. The main respondents of this survey were students and graduates, between the age range of 20- 50 years old. The total number of respondents was 57, from there 57.9% were male and 42.1% female. Most of the questions were included from the 'Financial Literacy: BSEC website and the respondents had to answer multiple choice questions.

Education

57 responses

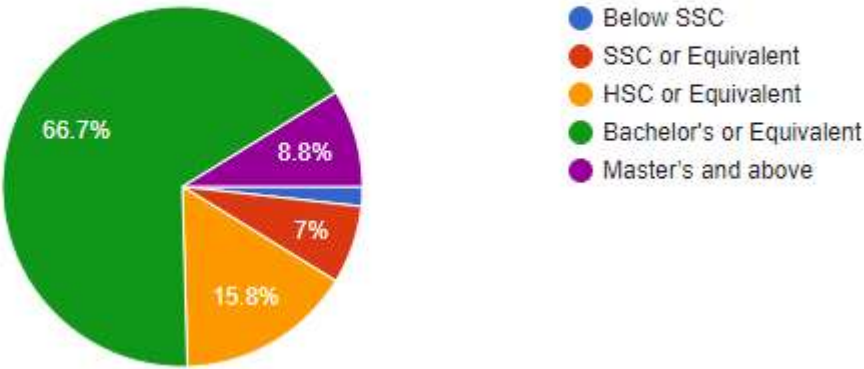


Figure 1: Education of the respondents

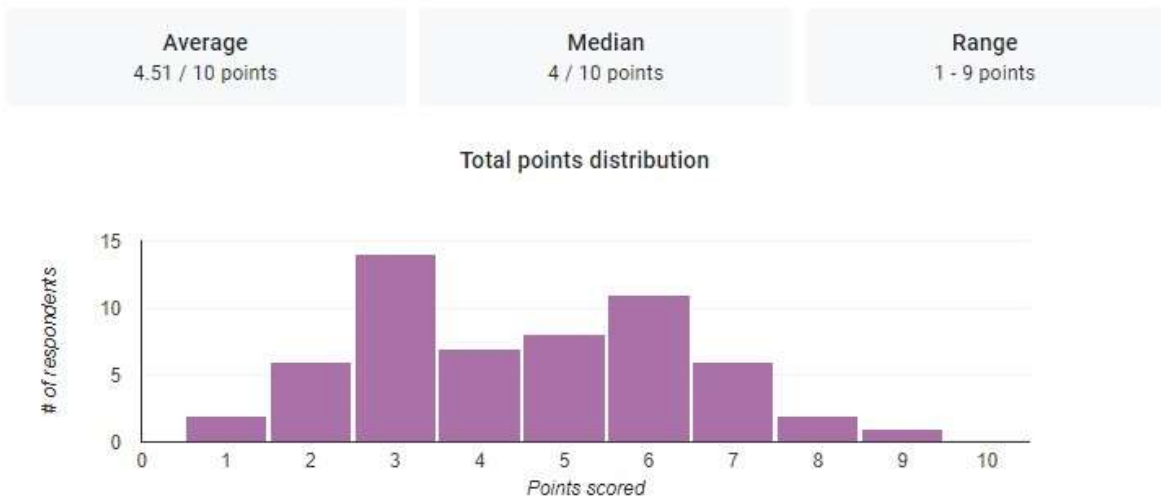


Figure 2: Points scored by the respondents

As the pie chart shows 66.7% of the respondents were studying for their bachelor's, and the bar chart shows most people had only scored three questions correct. Though respondents have different majors, the results are very disappointing. While asking the respondents to take the survey, it was requested that they do not search for the answer on the internet or take help from others, the questions were very simple. Families in Bangladesh spend 71% of education expenditure (Global Education Monitoring (GEM) Report 2021-22), but they still lack financial literacy which is crucial for both investors and non-investors.

4.2 Capital Market in Bangladesh

The capital market of Bangladesh is the third largest in South Asia but is one of the smallest in all of Asia. It has two fully automated markets the Dhaka Stock Exchange (DSE) and the Chittagong Stock Exchange (CSE), as well as an over-the-counter exchange run by CSE. It consists of the Securities and Exchange Commission (SEC), to implement rules and regulations, and monitors their implications to operate and develop the capital market. The Central Depository Bangladesh Limited (CDBL), is the only Central Depository in Bangladesh that provides facilities for the

settlement of transactions of dematerialized securities in CSE and DSE. The Bangladesh Securities and Exchange Commission (BSEC) was founded in 1993, it aims to safeguard investor interests, expand the securities market, and create essential rules where they are required. The participants of the capital market include commercial banks, savings and loan associations, credit unions, mutual saving banks, finance houses, finance companies, merchant bankers, discount houses, venture capital companies, leasing companies, investment banks & companies, investment clubs, pension funds, stock exchanges, security companies, underwriters, portfolio managers, and insurance companies.

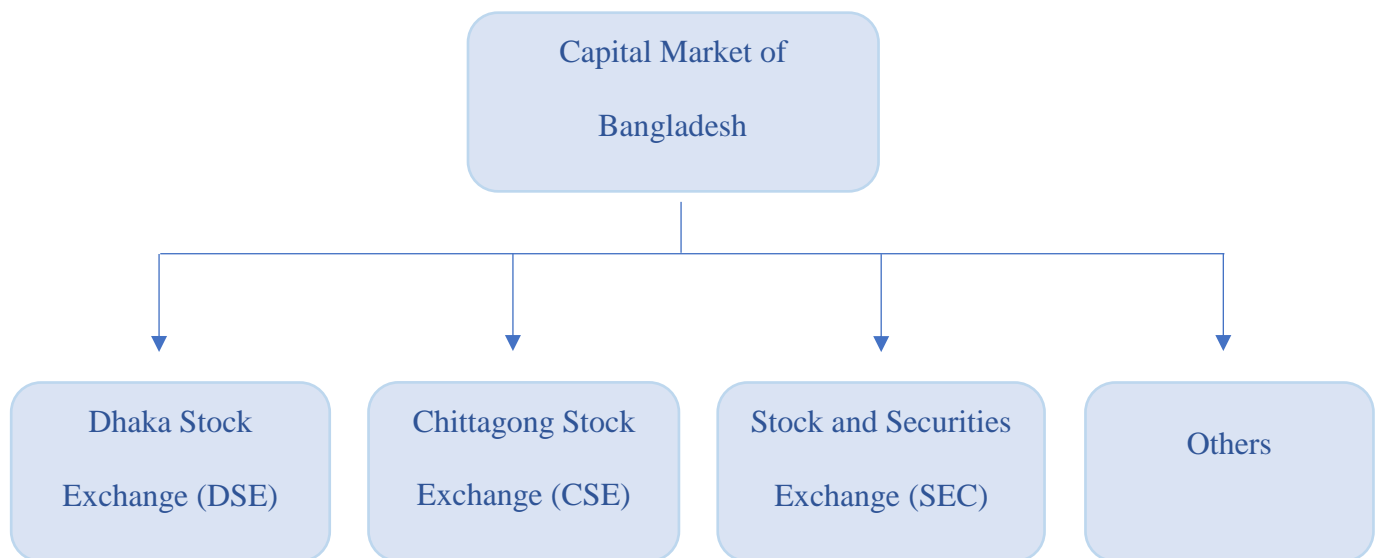


Figure 3: Structure of Capital Market in Bangladesh

The capital market plays an important role in the economy in every country, as long-term funds are raised by companies by the issue of shares, debentures, and bonds from it, it is a key source of

long-term funding for Bangladesh's economy. For industrialization and economic growth, a fair and effective capital market is crucial. There are around 3 million investors in Bangladesh's capital market, however, most of these investors are marginal. The stock market is composed of complex systems, investors must be highly intelligent, which is facilitated by having a greater understanding of finance. n.d. (Research On Stock Markets). People must research a great deal of data before investing in this market to create accurate predictions, therefore, forecasting methodologies must be properly understood to produce successful outcomes. The investors in Bangladesh usually invest by following the big-shot investors which leads them to unpredictable outcomes and end up blaming luck if the outcome is not in their favour. This allows manipulators the chance to take advantage of large investors while getting away with it. Recently, the stock market in Bangladesh face two major crashes where thousands of tiny and unskilled investors lost everything in both instances. Though Bangladeshi investors cannot directly invest in foreign stock there are preparations in the future to open the doors for that opportunity. Despite not being a part of the major global stock indices, Bangladesh experienced its largest one-day loss in over two years as 'panic-driven' investors rushed to sell their shares to cash in on the ongoing Russia-Ukraine war. In Bangladesh, the stock market is not integrated with global markets the investors had no reason to be so alarmed (Faruq Ahmad Siddiqi), one of the reasons why investors need to understand the correlations and market integration among stock markets around the world through financial education. Impulsive investment decisions not only endanger the financial stability of investors but also the stability of Bangladesh's already vulnerable capital market, it also influences the nation's overall economic expansion.

Chapter 5: Methodology

5.1 Introduction

Financial literacy is a basic requirement for everyone in this fast-paced world, it is a necessity to avoid financial problems. Many issues need to be discussed and to be explored to understand the importance of financial literacy. Data are scarce, no big survey has ever been conducted in Bangladesh to know the number of people who are financially literate and understand how different demographics affect the people's financial condition, only small sample surveys can be seen. The analytical framework demonstrates that neither the qualitative nor the quantitative methods are adequate for this research project, considering this, the research project aims to adopt a mixed methodology that combines qualitative and quantitative methods.

5.2 Methodology

The report contains both qualitative and quantitative data, data has been collected from the interviews, reports and publications, the survey data, and some survey reports. For through research on the topic both national and international published and unpublished documents and literature have been reviewed. A survey mainly for students and graduates was also conducted to understand their level of financial literacy, the survey was conducted online using Google form. Both online and offline data have been collected. Online sources like survey reports, small articles, published assignments, thesis and reports, and offline sources like journals, magazines, and specific chapters from books were used for research.

The multiple questions included in the survey-

1. In Recurring Deposits,

- period of deposit is a fixed
- a fixed sum is deposited every
- interest is paid at the FDR rate
- All of the above

2. Bank Pass Book is

- Shows balance in the account
- Contains transaction details of Bank Account
- Issued by Bank
- All of the above

3. An investor bought 100 shares of stock in a packaging food company for \$2,000 and after three years, sold all the shares for \$3,800. The \$1,800 profit is known as

- a yield
- a capital gain
- diversification
- cost averaging

4. Type of market in which securities with less than one-year maturity are traded is classified as

- money market
- capital market
- transaction market
- global market

5. Which term is used to describe a payout made to shareholders representing their share of a corporation's profit?

- Discount
- Coupon
- NAV
- Dividend

6. In capital markets, major suppliers of trading instruments are

- liquid companies
- instrumental companies
- government and companies
- manufacturing companies

7. The face value of a stock is

- the value of a company listed in its books and share certificate
- the nominal value of the shares, the original cost, as mentioned in the share certificate
- the total value of the share capital + reserves & surplus
- the price of new shares, bonds, etc. when they are sold for the first time

8. Which of the following terms is correctly matched?

- BSEC- Capital Market
- DSE- Money Market
- Capital Gains- Reserve
- Bangladesh Bank- Listed Companies

9. Which one is related to primary markets?

- Debenture
- IPO
- Bond
- All of these

10. Bangladesh's economy is

- Pure traditional market
- Pure command economy
- Pure market economy
- Mixed economy

5.3 Scope and Limitation of Study

The research report was conducted to study the importance of financial literacy and its impact on the capital market and stock returns in Bangladesh. The report has limitations for various reasons, some of those reasons are-

- Survey sample sizes are small
- Target groups are reluctant to provide information
- As most surveys were on the online platform, many respondents may have taken help from the internet.

Chapter 6: Significance of Issue

4.1 Investment Behavior and Financial Literacy

Financial literacy plays an important role in the sustainability and development of an economy, to accomplish the title of a middle-income country Bangladeshi citizens require to have the necessary financial knowledge and skills. The average financial literacy score is 24.6% according to a survey conducted by the RPDC, which is quite low for a country with a 74.66% literacy rate. Financial behaviour is instrumental in making investment decisions. The investment decision maker doesn't always behave in a manner consistent with the assumptions made according to the perception and understanding of the information received (Christanti and Mahastanti, 2011). There are typically differences in investment trends between developed and developing countries. In Bangladesh people usually invest more in gold and properties, as risk-averse investors tend to look for three key things, rewards, liquidity, and safety. The people who do invest in the capital market and stock market follow a rather logical decision-making process when selecting stocks to invest in, a stock usually comes to an investor's attention through news/rumours or suggestions received from family/ friends/ broker or based on experience. According to the RBI study on Indian household finances, investments in developing nations total around 84% in real estate and tangible items, 11% in gold, and the remaining 5% in financial assets. But, to lower risk during retirement, a bigger proportion of investments are invested in financial assets than any other asset in developed nations. (Sangeetha R., MD, et al.). All these are influenced by the role played by banks in different countries in engaging people in making investments as they also play a crucial role in increasing the knowledge of people regarding investment, especially in financial assets. (Raman,2012).

The levels of financial literacy vary among developed and developing countries. In countries like Denmark, Norway, and Sweden 71% of adults have enough financial knowledge to answer basic and complex topics of finance making them the top 3 countries in terms of financial literacy. In 2011 the World Bank implemented a project on financial literacy and education in Russia, to promote responsible and rational financial behaviour. The project was focused to improve financial literacy among school and college students, by teaching the students they also target their families, including seniors, and the wider community. The idea was that the students would gain the modern required financial knowledge and awareness of financial instruments, then share what they learned with others. By June 2018, more than 20,000 university students and instructors from over two-thirds of Russia's regions had finished the project's training programs in financial literacy. The findings of the 2017 Program for International Student Assessment (PISA) assessment on financial literacy show the impact of this instruction. Russians outperformed the global norm, placing fourth from tenth in 2012, which represents extraordinary progress and places Russia considerably above the OECD average. A good amount of financial knowledge improves an individual's money managing skills and provides more independence. (Dr, Sangeetha R, et al.). On the other hand, people who do not have enough financial knowledge suffer from a greater problem of debt. (A Lusardi, Tufano, & Field, 2009).

6.2 An Ethnographic Decision Tree Model (EDTM) of Stock Selection

The stock market and capital markets, in general, have been recognized as adaptive complex systems (Michael Mauboussin, 2002), and investment literacy in both markets varies with the many conditions. According to interviews and findings of Nagy & Obenberger (1994), the investors in Bangladesh choose to invest based on experience, news, suggestion, and rumours they

receive from family, friends, acquaintances, and close relatives. Investors who do have experience and know about stocks in detail, analyze their decision after making some necessary predictions. The investors actively search for information about the stock they are interested to invest in, the most common criteria were 'industry' and 'share category', as they will indicate the prospects, a similar finding to that of Al-Tamimi (2006) and Nagy & Obenberger (1994). It was found out a lot of the investors have varied levels of trust and dependence on suggestions, but different investors have different ways to fit their criteria. Short-term investors use technical analysis, whilst, long-term investors use fundamental analysis and evaluations based on some qualitative criteria such as management strength, shareholding structure, etc. To understand how Bangladeshi investors, take decisions to invest in the Capital or stock market an ethnographic decision tree model was drawn, showing the different conclusions the investors select on the information. E.g., the EDTM has three outcomes: “buy”, “do not buy” and “consider it for later”.

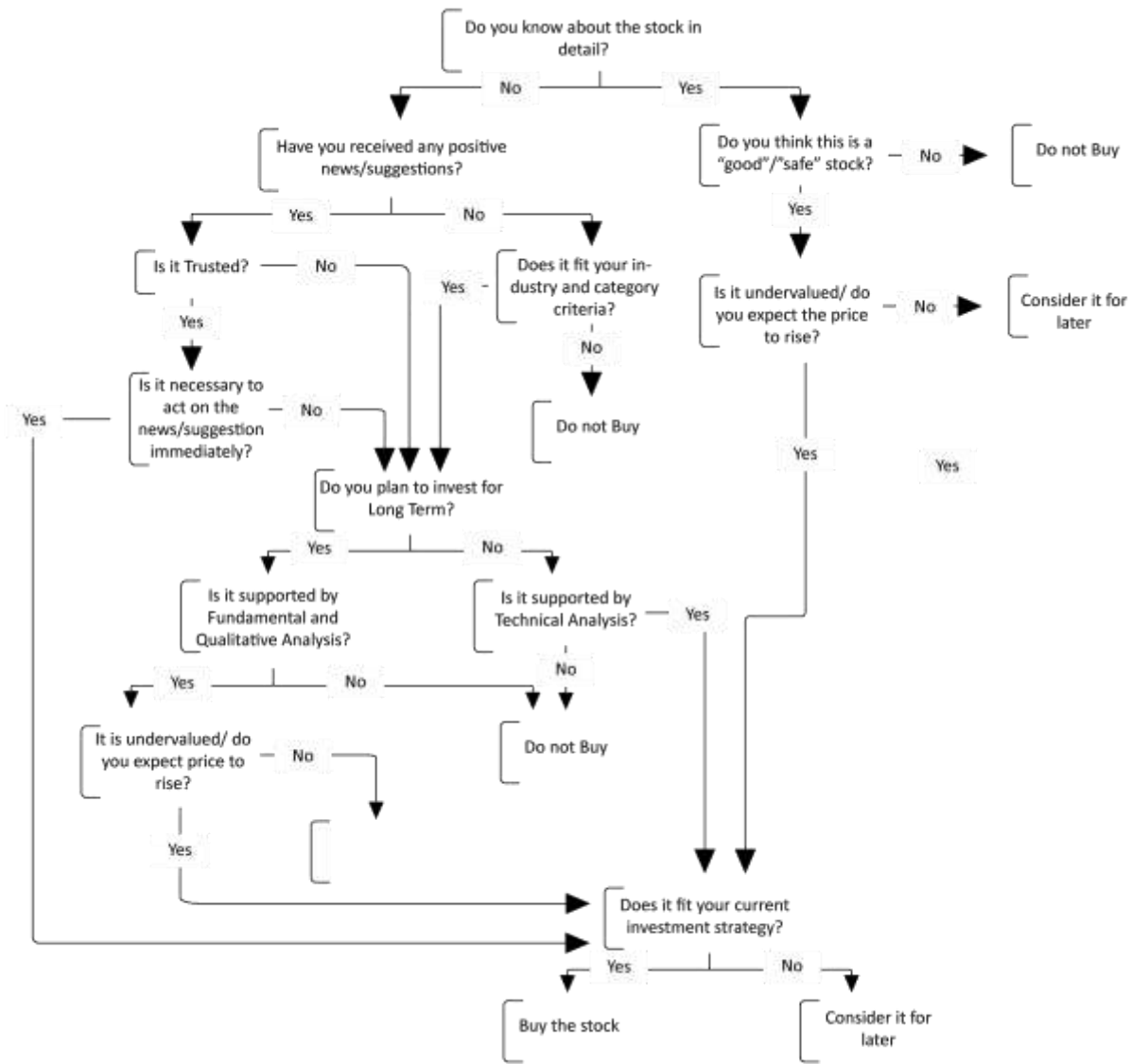


Figure 4: An Ethnographic Decision Tree Model of how Bangladeshi investors make a stock investment decision

6.3 Impact of Limited Financial Knowledge during the Pandemic

The Covid-19 pandemic had widespread adverse impacts on the financial markets and institutions, rattling the stock market in both developed and developing countries. The pandemic caused severe

damage to both health and the economy, resulting in unemployment across industries, a breakdown of healthcare systems, and the closure of small and medium-sized businesses, which caused an increase in poverty in Bangladesh. During the pandemic, we got to witness people's lack of financial literacy as many admitted they did not have a written financial plan because of their lack of financial understanding, as well as the financial uncertainties brought on by the temporary closure of businesses and schools, the volatility of the stock market, and changes in retirement income (Dhore, 2020) (OECD, 2021). Many people had difficulty in managing their finances, leading to unpaid bills, rents, and other obligations, the people had also become vulnerable to financial scams and fraud hence, making it even more obvious the need for financial education (Frazier, 2020) (OECD, 2021). The market value of stocks fell by 11.50% during the epidemic from February 27, 2020, to June 10, 2020, and there was daily market volatility (standard deviation) of 2.20%. (in annualized terms it becomes as large as 98.30 %). For the lockdown, the Dhaka and Chittagong stock markets did not operate during March and April and resumed operations on May 31, 2020. Before the lockdown was imposed the Bangladesh Stocks and Exchange Commission (BSEC) adopted floor pricing for all listed securities to reverse the typically decreasing market patterns. But it showed no improvement, as trade volume was trending downward, and the Covid-19 pandemic's development is aggravating the damage with negative micro and macro-level effects.

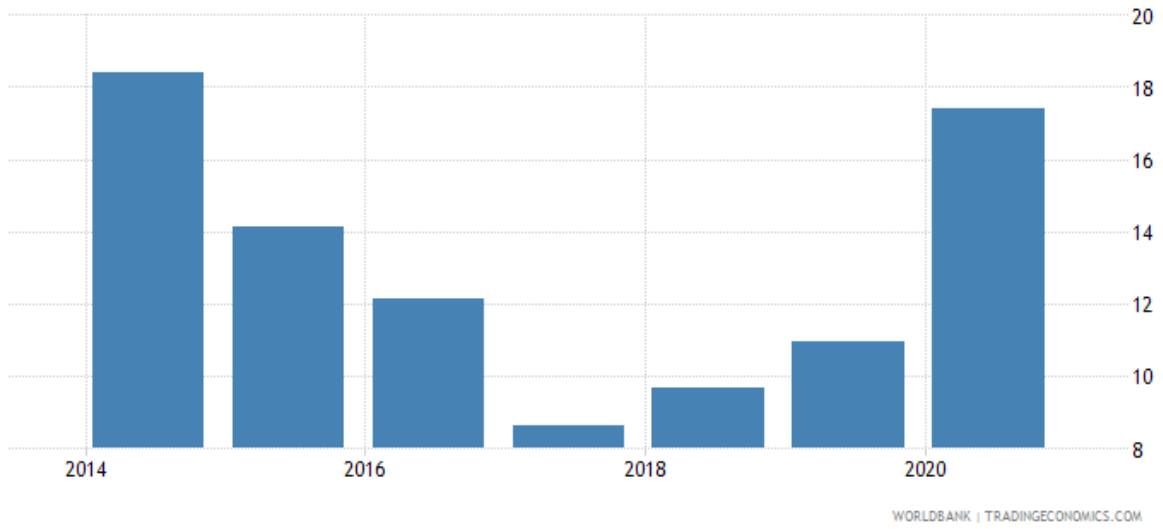


Figure 5: Stock price volatility in Bangladesh in 2020.

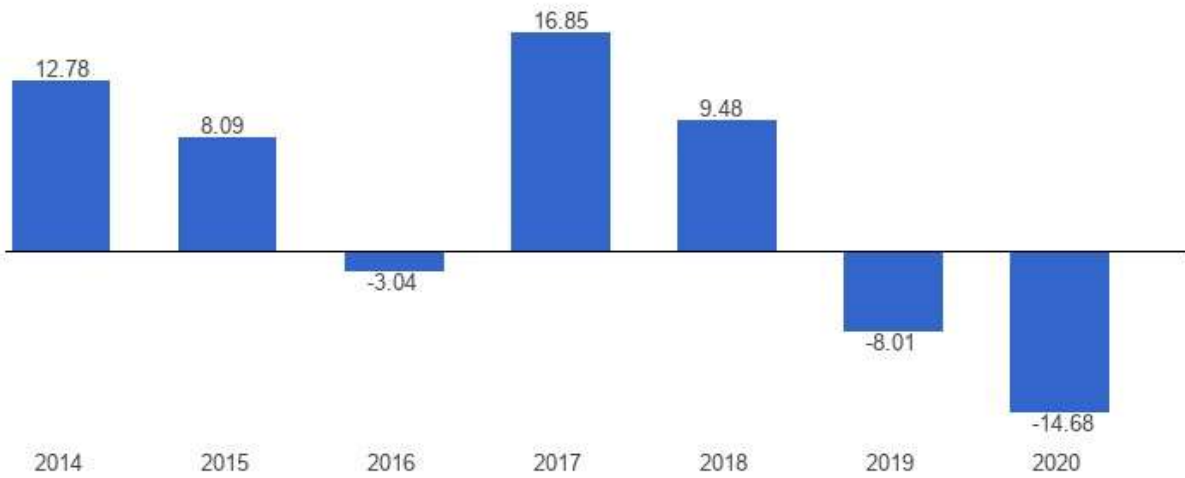


Figure 6: Stock market return percent, 2020.

As shown in the figures above the pandemic had a massive adverse effect on the stock market, and this led to a huge loss for the investors, especially the investors who lack financial literacy.

Chapter 7: Recommendations & Conclusion

7.1 Recommendations

Financial literacy is essential for both an individual and the economy, well-designed and executed financial education can have a major impact on the overall population (Hastings, Madrian, & Skimmyhorn, 2013). To incorporate financial education appropriate planning and the correct education are necessary. For nation-level education on finance Education Board Bangladesh needs to mandate basic finance courses to schools and universities, that way even if people do not take business education they can still tackle common financial problems. By starting finance education at a young age, the younger generation can take ownership of their finances by budgeting and saving practices, and the ICT and education ministries can encourage this by developing e-content as technology will make it easier to spread knowledge everywhere. The young generation these days are eager to become entrepreneurs as the online business is increasing and evolving, in order for them to succeed and grow they need financial education. It is advised that people start keeping a budget, listen to financial podcasts, read financial books, and consult with financial professionals. Even though they can be advocated, all people might not have access to them. We must research the various socioeconomic backgrounds to develop a variety of approaches to reaching them to make financial literacy more accessible. From the RPDC survey results we found out that there is a big gender gap in financial literacy, women have always been secluded when it comes to money. Very few women possess the necessary information or can manage their finances, this is because

of the social structure and higher dependency on male counterparts to provide and maintain the finances. This can be resolved if we approach them personally, much as how microfinance was introduced to Bangladesh's rural areas. From a legislative perspective, the inclusion of financial literacy must be approved through legal mandates, particularly with regard to citizens having the right to access all types of basic banking services. Not only will this help to reduce and control the amount of "dirty money" in the economy, but it will also give the government the chance to streamline social assistance and pension plans by linking them to individual bank accounts. Though the Bangladesh Bank provides regulations for safe financial practice, capital market and stock market investors should take a test of their knowledge before investing. Simple questions like, "What is the risk tolerance?", "What is diversification?", "What does the trend analysis indicate?", can help the investors predict a stable or profitable investment. Whilst analyzing several studies, reports, and articles, a similarity was found that although people might not be familiar with the phrase 'Financial Literacy' itself, they were at least aware of the very basics of financial knowledge. It would be ideal if we could use this opportunity to close the knowledge gap and guide them toward a more financially educated state. The economy will grow positively as time goes on and more individuals become financially aware.

7.2 Conclusion

Financial literacy can be defined as knowledge of money matters to prosper, most general people tend to assume that investing is the only way to understand how finances are used. "Investments are for financial relief and savings. So, security is important for investments," Mr. Khalid (Dhaka Tribune, 2022). The majority of the investors start investing without any prior knowledge, they act on instinct after hearing rumours, news, or suggestions, which leads them to take uncalculated decisions and leaves them vulnerable to fraud. People make impulsive decisions to invest when

they think of earning a profit, but with the lack of knowledge, this shows that finance is the study of how people handle their finances. Due to people's tendency to make poor judgments that might lead to financial ruin, financial literacy becomes even more important. In one of the recent cases of the stock market crash in Bangladesh, it experienced the largest one-day loss in over two years, as investors sold off their shares because of the ongoing Russia-Ukraine war. The stock market of Bangladesh is not integrated with global markets, so the investors had just reacted impulsively, made harsh decisions, and lost whatever they had invested. Following the incident gives us the idea of how the investors do not research before investing, they do not have the proper financial knowledge and avoid going through necessary information before making investment decisions. Thus, financial literacy is critically crucial for all socioeconomic groups to ensure that individuals are making the right financial decisions.

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