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ABSTRACT

Mental Accounting seems crucial while taking decision of financial planning by individual. It helps us understand how investment decisions are greatly influenced by psychological calculations. This research is being conducted to analyse the impact of mental accounting on financial planning of an individual. The data of 618 respondents is collected through Likert based structured questionnaire on relation between mental calculation and Financial Decision. Responses are analyzed through descriptive statistics and bi-variate analysis using SPSS and Smart PLS. Results of statistical analysis- EFA, CFA and SEM demonstrate that financial planning of people is highly influenced by their mental accounting. Mental Accounting changes the allocation and distribution of money in different situations. People do not only consider financial calculation of risk and return, rather they decide as per their own mental calculation and capacities while investing money for financial planning. Moreover, the significance of mental accounting varies as per the demographic profile of an individual as found in non-parametric test results. It is also found that people sometimes do not remain balanced while selecting different investment avenues for their financial preparation, due to the strategies of mental accounts. They assign less or more importance to the specific component of investment decision which can affect their financial plan. It is also found that mental accounting does not always directly affect the financial decision, instead it affects them indirectly also. The results of mediation analysis in this research approve that mental accounting can play a role of mediator also while building financial plan for future. Thus, this study on the relevance of mental accounting can assist individual and professionals to be considerate towards their role in financial planning by including mental accounting in financial decisions as well.

Key words: Mental Accounting, CFA, SEM, Mediation Analysis