

Modeling the Impact of Happiness and Behavioral-Economic Factors on Saving and Investment Willingness: Evidence from Individual Investors in Himachal Pradesh Using SEM

Chhaya Devi

chhayadadhwal597@gmail.com

National Institute of Technology Hamirpur <https://orcid.org/0009-0005-5826-7052>

Manoj Sharma

NIT Hamirpur: National Institute of Technology Hamirpur

Yogesh Gupta

NIT Hamirpur: National Institute of Technology Hamirpur

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Abstract

This study aims to explore the impact of individuals' happiness, various economic and non-economic factors on their willingness to save and invest in a developing economy. Data were collected from 400 participants living in the districts of Hamirpur and Una in the Indian mountain state of Himachal Pradesh using a survey-based methodology. The relationships between the constructs were investigated using structural equation modeling (SEM), and the validity of the constructs and the relationships between the variables were evaluated using confirmatory factor analysis (CFA). The findings indicate significant relationship between economic and non-economic factors and individuals' willingness to save, as well as non-economic factors and their willingness to invest in stocks, with significance levels at 1% and 5%, respectively. In contrast, the relationship between economic factors and willingness to invest, happiness and willingness to invest, and happiness and willingness to save in financial institutions was found to be insignificant. SEM provides a robust framework for assessing complex theoretical models, enabling researchers to evaluate effects of multiple factors on individuals' financial decision-making. Focusing on participants' willingness to save and invest, the research serves as a foundational step toward understanding investment behavior in India. Future research should extend its scope to a broader demographic to offer deeper insights into investor behavior across various technological and socio-cultural backgrounds.

1. Introduction

In recent decades, behavioral finance has emerged as a vital field of study, particularly in response to recurring financial crises and stock market anomalies during the 2000s (Khawaja & Alharbi, 2021). Unlike traditional finance, which assumes rational decision-making, behavioral finance integrates insights from psychology and economics to explore how cognitive errors and emotional biases influence financial behavior (Belsky & Gilovich, 1999; Wäneryd, 2001), real-world investing often deviates from rationality due to cognitive and emotional biases (Vijaya, 2014). This perspective helps to explain why individuals often make irrational choices when saving, investing, spending, or borrowing money. A growing body of literature investigates the psychological underpinnings of stock market participation, revealing that individuals often do not conform to the rational models proposed by efficient market theory (Wärneryd, 2001; Riitsalu & Murakas, 2019). Instead, investor decisions are shaped by a combination of economic factors—such as income and interest rates—and non-economic factors, including social norms, financial literacy, and psychological biases (Dam, 2017; Baker et al., 2021). These behavioral influences have become increasingly relevant as financial markets continue to diversify and expand globally (Sachdeva et al., 2022; Rahman & Gan, 2020).

As per classical economists' thought and various studies, saving and investment was admitted as an important predictor of economic growth (Dong et al. 2021; Million & Belay 2019). Socio-demographic variables—such as age, household income, and marital status—significantly shape financial behavior, with household income and duration of investment emerging as particularly influential (Gautam & Matta, 2016). Higher income levels and improved access to banking services are strongly associated with

increased savings, as evidenced by the positive correlation between per capita income and savings rates in India (Agrawal et al., 2010). Components such as digital payments, financial education, and income levels contribute significantly not only to personal savings but also to broader financial inclusion goals (Shamim et al., 2024). Within specific populations of rural areas, financial literacy and confidence play a crucial role in shaping saving behavior, with greater knowledge and self-efficacy leading to a higher propensity to save (Das & Maji, 2023). Many Indian investors rely on heuristics and mental accounting when making saving and investment decisions, which can lead to suboptimal outcomes (Chandra et al., 2011). Within the middle class, saving and investment patterns show variation; while discretionary savings are relatively unaffected by employment type or monthly income, investment behavior tends to be more sensitive to changes in income levels (Das & Kumar, 2016). For low-income groups, the ability to save regularly is closely linked to financial literacy and the effectiveness of targeted financial interventions. This underscores the importance of categorizing savers to develop more focused and inclusive financial strategies (Balasubramanian, 2015).

India's long-standing and rapidly growing stock market sees substantial participation from individual investors, many of whom allocate a significant portion of their personal savings into equities seeking favorable risk-return trade-offs (Mistry, 2015). Stock markets, as crucial components of economic development, facilitate investments, savings, and consumption smoothing (Cole & Shastri, 2009). However, effective participation requires access to accurate information, which encompasses not only financial and economic indicators but also behavioral and psychological factors (Morck et al., 2000; Bhimani & Langfield-Smith, 2007). Several demographic and behavioral variables—including education, income, age, investment knowledge, heuristics, social capital, and culture—have been shown to affect investment behavior (Hong et al., 2004; Campbell, 2006; Malmendier & Nagel, 2011; Van Rooij et al., 2011; Gao et al., 2019). Although behavioral data are inherently non-quantifiable, their impact on financial decisions is profound and increasingly recognized in financial research (Adil et al., 2021; Haritha & Uchil, 2020). Recent research has broadly categorized the determinants of investment behavior into two key areas: (i) market anomalies and investor overreactions (Sahi, 2017; Jain et al., 2020), and (ii) the economic and psychological factors shaping individual decision-making (Naveed et al., 2020; Khawaja & Alharbi, 2021). While the former has been widely explored in the Indian context, the latter—particularly the behavioral influences on stock market participation—remains relatively underexplored (Chandra & Kumar, 2012; Sachdeva et al., 2022). Participation in stock markets remains uneven, especially in emerging economies like India, where a significant portion of the population remains hesitant to invest due to various barriers, including limited financial literacy, risk aversion, and social influences (Chandra & Kumar, 2012; Sachdeva et al., 2022). A lack of participation results in considerable welfare losses to both individuals and the broader economy (Cocco et al., 2005).

Importantly, recent neurological and psychological research highlights the role of happiness as a determinant of financial behavior. More recent psychological experiments show that happier individuals tend to exhibit different decision-making patterns, including greater patience, reduced impulsivity, and increased financial planning (Frey & Stutzer, 2006). Financial education is consistently linked to both improved investment behavior and increased happiness (Bernheim & Garrett, 1996; Bayer et al., 2009).

Health (Rosen & Wu, 2004), income risk (Guiso et al., 1996), and cultural factors (Grinblatt & Keloharju, 2001) also contribute to stock market participation. However, much of the existing literature overlooks emotional and psychological variables as key drivers of investment behavior. Guven (2012), using data from Germany and the Netherlands, found that happier individuals are more likely to save, exhibit lower marginal propensities to consume, and spend less impulsively. Zhou and Xiao (2016) found that optimism—closely related to happiness—enhanced participation in real estate markets, although its impact on asset allocation remained modest. Kumar and Prince (2022) suggest that happiness reduces fear and anxiety among investors, leading to more rational and less volatile stock market behavior. Naeem et al. (2022) found that positive sentiment lowers investor risk aversion and improves stock selection processes. Chuluun and Graham (2016) demonstrated that local happiness levels are positively correlated with firm-level investment. Similarly, Guven (2009) found that happier individuals take more time in decision-making, are more future-oriented, and display a lower marginal propensity to consume. Kaplanski et al. (2014, 2015) noted that subjective emotions strongly influence risk and return expectations, reinforcing the role of behavioral finance in understanding investor psychology. Happiness influences individuals' saving and investment decisions by shaping future expectations and risk perceptions (Gilbert, 2006; Guven, 2012). Empirical studies demonstrate that happier individuals are more likely to save, spend cautiously, and invest prudently (Frey & Stutzer, 2002; Rao et al., 2014). Kumar et al. (2024) explore the role of supply chain management (SCM) in enhancing efficiency improves service reliability, which indirectly promotes economic stability fosters greater consumer confidence, influencing saving and investment behavior through improved infrastructure and reduced financial uncertainty. Kumar, et al. (2022), use artificial intelligence to quantify key factors in supply chain management, enhancing decision-making efficiency.

1.1 Happiness, Saving, and Investment Behavior

The relationship between happiness and economic behavior has traditionally been examined through the lens of how external factors—such as income, unemployment, and inflation—affect subjective well-being (Kahneman & Krueger, 2006). The relationship between happiness and financial behavior—particularly saving and investment behavior—is multidimensional, shaped by psychological, social, and economic influences. However, recent studies emphasize the need to explore the reverse causality: how happiness itself influences financial decisions. Research consistently shows that happier individuals are generally more future-oriented, tend to have a lower marginal propensity to consume, and are more likely to save, driven by expectations of longer life spans and stable economic outlooks (Guven, 2009). Furthermore, the process of wealth accumulation has been found to contribute modestly to happiness, reinforcing the positive feedback loop between saving and subjective well-being (Jantsch & Veenhoven, 2022). When it comes to investment behavior, happier individuals typically exhibit a preference for low-risk assets, reflecting a cautious and conservative financial approach (Apergis et al., 2019). Interestingly, trust, rather than risk tolerance, has been identified as a more significant predictor of stock market participation, suggesting that social trust plays a vital role in shaping investment decisions (Rao & Zhu, 2016). Stock market volatility also significantly affects emotional well-being. Individuals who assign high personal

value to wealth tend to experience more intense emotional reactions to market fluctuations, driven by deep-seated attitudes toward money (Tang et al., 2018).

1.2 Happiness Finance in India

Happiness finance in India encompasses, absolute income positively influences happiness, relative income comparisons often reduce its impact, consistent with the Easterlin Paradox (Lakshmanasamy, 2010). The concept of happiness finance advocates for incorporating life satisfaction into financial decision-making, highlighting the role of money in enhancing well-being. Social capital plays a vital role, with strong social networks contributing significantly to individual well-being (Itaba, 2022). The Indian Constitution implicitly endorses happiness as a policy goal, recognizing that economic growth alone does not equate to holistic development (Kumar, 2024). Despite notable economic progress, India's relatively low global happiness rankings are attributed to status-driven societal norms and the emphasis on relative economic positioning (Lakshmanasamy, 2022). Cultural and spiritual traditions in India also shape the understanding of happiness, emphasizing inner peace, self-discipline, and communal harmony (Misra et al., 2024). The emerging discipline of happiness finance advocates for integrating happiness into financial decision-making, encouraging institutions to view well-being as a legitimate objective alongside profitability. Positive psychology initiatives and efforts by institutions, communities, and policymakers can help cultivate a more supportive environment for well-being (Midha & Singh, 2023).

1.3 Happiness Finance in Himachal Pradesh

Happiness finance in Himachal Pradesh reflects the intersection of financial behavior, social capital, digital inclusion, and the broader principles of happiness economics. Individual financial behavior—such as planning and financial awareness—significantly influences financial well-being, an important component of overall happiness (Chavali et al., 2021). Investment decisions in the region are shaped by both demographic and psychological factors, which influence financial choices and contribute to subjective financial well-being (Sharma & Dhingra, 2024). Social capital has been recognized as a key predictor of happiness, with strong positive correlations between community networks and individual well-being (Itaba, 2022). This is particularly relevant in Himachal Pradesh, where digital financial services have expanded access, especially among the youth, despite persistent challenges like limited internet connectivity and digital literacy (Sharma et al., 2024). Kumar, et al., (2023) explore how artificial intelligence enhances supply chain efficiency in India. This efficiency can influence saving and investment behavior by fostering economic stability, encouraging investor confidence, and optimizing public resource allocation for infrastructure development. Economic growth and rising incomes have also been linked to higher life satisfaction, particularly among low-income groups, underlining the importance of financial support systems (Mahadea & Rawat, 2008). In rural regions, access to financial resources for essential services like healthcare and education is vital for enhancing happiness, as demonstrated by farmer-specific happiness index models.

1.4 Motivation of the Study

Understanding the determinants of individual saving and investment behavior is essential for fostering financial inclusion, enhancing economic resilience, and encouraging long-term wealth accumulation—particularly in emerging economies like India. Traditionally, studies on financial behavior have focused predominantly on economic variables such as income levels, interest rates, and access to financial institutions (Keynes, 1936; Modigliani & Brumberg, 1954). However, in recent years, there has been growing recognition of the critical role played by behavioral and psychological factors—including financial literacy, attitudes towards saving, overconfidence bias, and prevailing social norms—in shaping individual financial decisions (Lusardi & Mitchell, 2014; Statman, 2004; Bakar & Yi, 2016). Despite this shift in focus, there remains a notable gap in research that integrates both economic and behavioral perspectives within a unified framework. This gap is especially pronounced in semi-urban and rural regions, where saving and investment behaviors are often deeply influenced by local socio-cultural contexts (Gaurav, Cole & Saini, 2011; Sahu & Das, 2021). Furthermore, while subjective well-being—commonly measured as happiness—has been linked to consumption patterns and overall financial satisfaction (Diener & Seligman, 2004; Layard, 2005), its influence on saving and investment behavior remains underexplored, particularly within the Indian context. While most existing studies emphasize the capacity to invest—driven by education, income, and access—there is a pressing need to understand the behavioral and emotional motivations behind investment behavior. This approach addresses gaps in existing literature and contributes to the growing discourse on behavioral finance in diverse socio-economic settings (Sachdeva & Lehal, 2023).

Emerging evidence suggests that happiness may shape an individual's time preferences, risk tolerance, and financial outlook, thereby affecting their willingness to save and invest (Joo & Grable, 2004). While existing studies explored investor behavior from various perspectives, few focus on the specific determinants of investor behavior in India, moreover, it offers new insights into the mechanisms that connect happiness with saving and investment behavior. Based on the significance of these findings, the following research questions are intended to be addressed by the study:

RQ1: What are the various factors influencing individual investors' willingness to save in financial institutions?

RQ2: What are the various factors influencing individual investors' willingness to invest in stocks?

RQ3: What is the influence of happiness on individual's willingness to save and invest?

RQ4: What is the impact of happiness individual's willingness to save and invest?

1.5 Research Objectives

The primary goal of this paper is to explore the causal relationship between happiness and savings-investment behavior.

To identify and examine the various economic and non-economic factors influencing individual investors' willingness to save and invest.

To analyze the impact of these identified factors on individual investors' saving and investment behavior.

To explore the relationship between happiness and individuals' willingness to save and invest.

To assess the impact of happiness on individuals' actual saving and investment willingness.

2. Review of Literature and Hypothesis Formation

2.1 Economic factors

(a) Personal Income: Personal income significantly influences individuals' willingness to save and invest, shaped by both economic and psychological factors. Higher income often leads to greater saving behavior due to increased financial satisfaction, especially among lower-income groups (Traut-Mattausch & Jonas, 2011). In Poland, income growth and optimism about future finances have been shown to boost saving propensity (Kłopocka et al., 2014). Income also plays a vital role in stock investment decisions. Higher-income individuals tend to invest more due to greater financial capacity and literacy (Latifah & Juwita, 2022). Personal wealth and risk tolerance increase stock allocation likelihood (Zhang, 2024). However, income instability can reduce investment willingness due to heightened risk aversion (Becker & Dimpfl, 2014).

(b) Rate of Interest: Mukhlis (2016) reported that rural savers in Indonesia were more influenced by banking services and technology than interest rates. Salman et al. (2024) found interest rates significantly influence deposit behavior in Pakistan's non-Islamic banks, while Marbun et al. (2023) emphasized that competitive rates enhance the appeal of deposits for both individuals and corporations. Studies show that higher interest rates do not uniformly increase the willingness to save. Hussein and Thirlwall (1999) found no significant positive effect of interest rates on saving, emphasizing the greater influence of financial deepening and inflation. Alam and Uddin (2009) found that rising interest rates discourage stock investments by making alternatives like bonds more attractive. In India, Khan and Kumar (2024) observed a long-term inverse relationship between key policy rates and stock prices.

(c) Financial Institutions: Willingness to save in financial institutions is shaped by financial knowledge, institutional membership, and economic conditions. Individuals with higher financial literacy are more likely to save, understanding both the benefits and available options (Kim & Yuh, 2018; Gonçalves & Ponchio, 2018). Membership in banks or insurance companies further encourages saving, especially in rural areas, by providing institutional support (Pailwar et al., 2010). Economic factors such as financial deepening, inflation, and interest rates also influence saving behavior (Hussein & Thirlwall, 1999). Financial institutions significantly impact stock market dynamics. Institutional investors like pension funds and insurance companies shape market trends through their preference for large, liquid stocks, and their growing market share has influenced prices and corporate decisions (Briston & Dobbins, 1979; Gompers & Metrick, 2001). Trust in financial institutions is vital, especially during uncertainties like the COVID-19 pandemic, where trust and financial literacy boost stock market participation in India (Adil et al., 2023).

H01

There is no significant relationship between economic factors and individual investors' willingness to save in financial institutions.

H02

There is no significant relationship between economic factors and individual investors' willingness to invest in stock market.

2.2 Non Economic Factors

(a) Attitude: A proactive financial attitude positively influences saving behavior and encourages engagement with financial institutions (Yulianto et al., 2024; Kerdvimaluang & Banjongprasert, 2022). Attitudes toward money correlate with higher investment willingness and risk-taking (Keller & Siegrist, 2006; Liu et al., 2023; Lai, 2019). Among younger investors, interest in short-term gains, influenced by media and macroeconomic news, is growing, often supported by a solid understanding of financial concepts (Kumar & Thandayudhapani, 2024). Thus, attitudes play a central role in both saving and investment behaviors.

(b) Financial Literacy: Financial knowledge and self-efficacy increase confidence in stock market participation (Khan et al., 2024). Studies show that individuals with higher financial literacy and numeracy are more inclined to invest in stocks over low-risk assets, indicating a deeper understanding of financial products (Jiang, 2023). Financial education is positively linked to better saving behavior, particularly at the household level (Ejaz, 2023), and contributes to more informed investment choices among young adults (Malaiya, 2025). Higher financial literacy correlates strongly with stock market participation. Mulyani and Wirawati (2024) and Hidayatullah et al. (2022) found that students with better financial knowledge are more interested in investing, with financial literacy explaining up to 60% of the variance in investment behavior. Even in the face of potential barriers, it boosts investment intentions and market engagement (Handranata et al., 2023). In the U.S., greater financial literacy is associated with broader market participation and capital mobilization (Khan et al., 2020), emphasizing the need to integrate financial education into academic curricula (Putri et al., 2024; Khan et al., 2020).

(c) Social Norms: Social influences, such as family and peer norms, also significantly affect saving intentions and stock investment decisions (Sulistiowati et al., 2023; Cahan et al., 2017). Social norms play a critical role in shaping individuals' willingness to save and invest. Injunctive norms—what people believe they *should* do—have been found to influence retirement saving intentions more strongly than descriptive norms (Croy et al., 2010). In Kenya, context-specific norms like income secrecy can promote saving behavior (Fromell et al., 2019; 2021). Yoon's studies highlight that social comparison enhances the impact of public service ads promoting savings, particularly among those who value financial responsibility (Yoon et al., 2016; 2017). Socially active individuals—those interacting with neighbors or

attending religious services—are more likely to participate in stock markets, especially when peer participation is high (Hong et al., 2004; Kubik et al., 2001). Overall, social norms profoundly influence saving and investment behaviors across diverse settings (Riehm et al., 2021).

H03

There is no significant relationship between non- economic factors and individual investors' willingness to save in financial institutions.

H04

There is no significant relationship between non- economic factors and individual investors' willingness to invest in stock market.

2.3 Happiness and willingness to save: TPB has been validated across various domains, including saving behavior (Loibl et al. 2011) and willingness to save (Shim et al. 2013). Research shows that happier individuals often exhibit stronger saving behaviors—they tend to spend less, save more, and are more future-oriented due to expectations of longer life spans and stable economic conditions (Güven, 2009). This aligns with findings suggesting that happiness leads to a preference for safer, low-risk financial assets, though it may reduce the inclination to invest in high-risk instruments (Apergis et al., 2019). Similarly, Delis and Mylonidis (2015) found that higher happiness levels can lower the likelihood of investing in risky assets or purchasing insurance, indicating a more cautious financial outlook. Furthermore, access to credit can improve happiness, and when coupled with financial capability, it can positively influence saving behavior (Purnama et al., 2022). Overall, happiness promotes saving by encouraging long-term thinking, but its effect on investment decisions, especially regarding risk, is nuanced and shaped by individual financial awareness and circumstances.

H05

Happiness has no significant association with individuals' willingness to save.

H06

Happiness has no significant impact on individuals' saving behavior.

2.4 Happiness and Willingness to Invest: The relationship between happiness and willingness to invest in stocks implies that happier individuals may invest more due to greater confidence in financial systems. Evidence from the China Household Finance Survey shows a strong link between happiness and stockholding, largely driven by trust and social capital rather than risk preference (Rao et al., 2016; Rao & Zhu, 2016). In Europe, happiness has been associated with a preference for safer, low-risk investments, suggesting that while happiness can encourage portfolio participation, it may also lead to more conservative choices (Apergis et al., 2019). Moreover, sentiment analysis from social media reveals that investor happiness influences market returns and volatility, with positive emotions often

boosting stock performance (Kyriazis, 2023; Bouri et al., 2020; Zhang et al., 2016). These findings highlight the behavioral finance perspective, where emotional well-being not only increases investment willingness but also shapes how individuals approach financial risk.

H07

Happiness has no significant association with individuals' willingness to invest.

H08

Happiness has no significant impact on individuals' investor behavior.

2.5 Theoretical evidence

Classical Utility Theory, proposed by Von Neumann and Morgenstern (1944), posits that individuals act rationally to maximize expected utility. Behavioral Finance Theory challenges the assumptions of rationality in traditional finance models by highlighting the influence of psychological factors on financial decision-making (Thaler, 2000). Similarly, the Life-Cycle Hypothesis (Modigliani & Brumberg, 1954) suggests individuals strategically plan investments over their lifetime to smooth consumption and reduce uncertainty, thereby promoting financial security and enhancing happiness, particularly in later life. The Sustainable Happiness Model (Lyubomirsky, Sheldon, & Schkade, 2005) further emphasizes the role of intentional behavior, including financial planning toward meaningful goals (e.g., education, retirement), in achieving lasting happiness. For instance, contrary to the life cycle hypothesis, consumption often declines after retirement, and accumulated wealth tends to remain unspent, passing on as inheritance (Bernheim, 1987; Börsch-Supan and Stahl, 1991). Building on the foundations of the life-cycle hypothesis, Shefrin and Thaler (1988) developed the behavioral life-cycle hypothesis incorporating behavioral anomalies. According to Xiao (2008), the Theory of planned behavior (TPB) is one of the best and most suitable theories related to financial behaviour that studies and predicts human behaviour. Numerous studies have applied the TPB to examine saving and investment behavior, highlighting that it is influenced by financial literacy and attitudes, both of which are connected to finance (Nidar & Bestari 2012; Sondari & Sudarsono 2015; Thung et al. 2012; Widyastuti et al. 2016; Satsios & Hadjidakis 2018). Some research has also focused on social influences, such as the role of parents and friends in shaping subjective norms, saving interest, and attitudes (Thung et al. 2012; Widyastuti et al. 2016). Saving under uncertain future income or emergencies requires similar planning and flexibility (Shaikh et al 2023). Studies by Jamal et al. (2015) and Mahdzan and Tabiani (2013) found that financial literacy impacts saving intentions and attitudes toward saving, with subjective norms further influencing saving attitudes. This study is grounded in the life cycle hypothesis and Theory of Planned Behavior (TPB) (Ajzen, 2019).

2.5.1 Life cycle hypothesis (LCH)

The Life Cycle Hypothesis (LCH) proposed by Modigliani, the theory posits that individuals aim to smooth consumption by saving during their working years and dissaving during retirement (Baranzini, 2005). Over time, the LCH has evolved to include factors such as income uncertainty and impatience, which can lead to buffer-stock saving—where individuals build a financial cushion to offset income fluctuations and align consumption with earnings (Carroll & Carroll, 1996). The model also challenges the assumption of uniform investment horizons, as seen in the CAPM, by highlighting the heterogeneity of investor timelines and preferences (Walsh, 2015). Risks such as unemployment further influence saving behavior and portfolio choices, often resulting in flatter age-related stock investment patterns than traditional models predict (Bagliano et al., 2015). Additionally, the LCH integrates the role of human capital, suggesting that younger individuals should hold more equities, gradually shifting toward safer assets as they age (Zanella, 2015). However, real-world behavior frequently diverges from these predictions, signaling limitations in traditional models (Zanella, 2015). The LCH remains a vital tool for analyzing saving and investment behavior, its application must be refined through empirical validation and behavioral insights (Baranzini, 2005; Kurz, 1987).

2.5.2 Theory of planned behaviour (TPB)

The Theory of Planned Behavior (TPB) suggests that behavior is driven by intention, which is closely linked to saving behavior (Ajzen 1991). The theory assumes that intention is the best factor to predict an individual's behaviour, which, in turn, is examined by attitude and social norms towards an individual's behaviour (Montano and Kasprzyk 2015). The TPB can be applied to saving behaviours, it is shaped by three components: attitudes, subjective norms, and perceived control (Arifin, 2018; Bansal and Taylor 2002; East 1993; Xiao and Wu 2006; Shim et al. 2007; Xiao 2008). Research on Indian millennial's also revealed that financial knowledge and parental influence enhance investment intentions by increasing financial self-efficacy and lowering perceived barriers (Bhatia et al., 2021; Lokuge & Kumari, 2023). In speculative markets like stocks and crypto currencies, financial literacy and attitude are key drivers, with social influence becoming significant with financial understanding (Pandurugan & Shammakhi, 2024). Recent evidence from Germany's mutual fund market shows that attitude, social pressure, and perceived behavioral control account for a large portion of the variance in investment willingness (Schmidt, 2010).

2.5.3 Role of Happiness in saving and investment

The broader "happiness economy" framework supports shifting the focus from traditional economic indicators to subjective well-being as a measure of sustainable development (Agrawal et al., 2024). There is a wide range of approaches to happiness research ranging from the perspectives of social science, economics, developmental, experimental and clinical psychology, to biology and other disciplines (Charles et al., 2010; Diener et al., 2018; Helliwell and Akinin 2018; Dockray and Steptoe 2010). Empirical evidence from China suggests that happiness positively influences stock market participation, with trust being a stronger driver than risk preference or optimism (Rao et al., 2016; Rao &

Zhu, 2016), highlighting the role of social capital. In contrast, studies in European contexts reveal that happier individuals tend to prefer low-risk assets, whereas higher-risk investment is less associated with increased happiness (Apergis et al., 2019), indicating that happiness affects not just participation, but asset choice. This perspective suggests that financial institutions could benefit from treating happiness as a strategic objective (Faugère & Gaucher, 2023). Trust and happiness are both influential in shaping financial behavior; however, evidence shows that happiness often has a stronger deterrent effect on risky investment than trust alone (Delis & Mylonidis, 2015). While the relationship between wealth and happiness is generally positive, its effect size is modest, and debt has a clear negative impact on well-being (Jantsch & Veenhoven, 2022). This aligns with the theory that income contributes to happiness only up to a certain point, beyond which non-material factors become more significant (Tian & Yang, 2006).

2.6 Research Gaps

Traditional economic models often overlook the increasing importance of non-economic and behavioral elements, such as financial literacy, saving attitudes, social norms, and emotional well-being (Lusardi & Mitchell, 2014; Thaler, 1999). Recent advancements in behavioral finance have brought attention towards emotional and psychological aspects of financial decision-making. However, the role of happiness as a determinant of saving and investment behavior remains underexplored, especially in emerging economies like India. While studies by Guven (2009) and De Neve et al. (2013) suggest a positive association between happiness and future-oriented financial behavior, the causal relationship between subjective well-being and willingness to save or invest has not been sufficiently examined, particularly using an integrated framework that includes both economic and behavioral variables. Most research either measures happiness as an outcome of financial success or treats it as a peripheral variable, rather than a central, influential driver of saving and investment decisions (Jebb et al., 2018; Kahneman & Deaton, 2010). In order to close these gaps, the integration of both economic and non-economic dimensions remains limited, especially in semi-urban and rural regions where trust in financial institutions and banking accessibility vary significantly (Sahu & Das, 2021; Statman, 2004), the role of emotional and cognitive biases—such as overconfidence, regret aversion, and herding—has received relatively less attention in developing economies like India, with most studies narrowly focusing on urban populations (Barber & Odean, 2001; Bakar & Yi, 2016). Furthermore, there is a distinct lack of holistic approaches that examine the combined impact of economic and behavioral factors on both saving and investment behavior, with few studies utilizing comprehensive analytical techniques such as Structural Equation Modeling to capture these interrelationships (Browning & Lusardi, 1996; Loayza et al., 2000; Pati & Shome, 2011). Lastly, while subjective happiness and well-being have been linked to consumption and financial satisfaction (Diener & Seligman, 2004; Layard, 2005), their direct influence on saving and investment behavior—particularly as a mediating or moderating factor—remains empirically underexplored in Indian behavioral finance research (Joo & Grable, 2004). Although extensive research explores how economic and psychological variables influence subjective well-being, fewer studies have examined how happiness impacts saving and investment behavior—especially in individual, non-

professional investors. There is a pressing need for interdisciplinary studies that incorporate psychological constructs like happiness into models of financial behavior, particularly in emerging markets.

3. Research Methodology

3.1 Research Design

The study adopts a quantitative research design, which is appropriate for analyzing variables at a single point in time (Creswell, 2014). The research methodology includes research design, sampling method, questionnaire development, data collection, reliability testing, and data analysis using appropriate statistical tools.

3.2 Sampling Method and Data Collection

A non-probability convenience sampling technique was employed to efficiently collect primary data from readily accessible participants, a method widely adopted in social science research for its practicality and ease of implementation (Etikan, Musa, & Alkassim, 2016). A pilot study involving 50 participants was carried out to assess the questionnaire's clarity, reliability, and overall structure. Following the feedback, minor adjustments were made. The finalized questionnaire featured both close-ended questions and five point Likert-scale items were employed, featuring response options from 1 (Strongly Disagree) to 5 (Strongly Agree). The study targeted individual investors residing in the Hamirpur and Una districts of Himachal Pradesh, India. Data collection occurred between May and July 2023, yielding 400 valid responses from all individuals who earns as working professionals, self-employed individuals, and business owners engaged in financial decision-making. All participants gave their informed consent, and participation was entirely at respondents will to uphold ethical research standards.

3.3.1 Questionnaire Development and Validation

A structured questionnaire was designed to measure factors, willingness to save, willingness to invest, and happiness levels. The questionnaire was structured into six sections: Section A focused on Economic Factors (10 items), Section B on Non-Economic Factors (11 items), Section C on Willingness to Save (6 items), Section D on Willingness to Invest (4 items), Section E on Happiness (4 items), and Section F gathered demographic information, including age, gender, education, occupation, income, family type, and marital status. The items related to economic and non-economic factors were developed based on insights from existing literature (Pompian, 2012; Lusardi & Mitchell, 2014), while measures of happiness and willingness to save and invest were adapted from well-established behavioral finance frameworks (Diener, 2000; Ajzen, 1991; Owusu et al., 2021). To ensure content validity and cultural sensitivity, the original questionnaire in English was translated into Hindi through the forward translation method, as recommended by Beaton et al. (2000). Three academic experts in the Hindi language reviewed and refined the translation for conceptual and linguistic accuracy.

3.5 Reliability and Validity Testing

To ensure internal consistency, Cronbach's alpha values were computed for each construct. All constructs achieved alpha values above 0.80, indicating strong reliability (Nunnally & Bernstein, 1994). Additionally, Composite Reliability (CR) and Average Variance Extracted (AVE) were assessed, with CR values above 0.7 and AVE above 0.5 confirming convergent validity (Hair et al., 2021).

3.6 Data Analysis Techniques

The data were analyzed using SmartPLS 4.0, a specialized software for Partial Least Squares Structural Equation Modeling (PLS-SEM), which is well-suited for examining complex models with latent variables and relatively small sample sizes (Hair et al., 2021). The analytical process includes descriptive statistics to summarize demographic characteristics, followed by PLS-SEM path modeling to examine the hypothesized relationships among economic and non-economic factors, happiness, willingness to save and invest. 5000 samples were used in a bootstrapping procedure to test the path coefficients' significance, and the model's explanatory power was evaluated using effect size (f^2) and R^2 values.

3.7 Demographic Profile

To gather necessary information and give a summary of the sample's demographics and features, an initial exploratory analysis was performed using the SPSS to uncover underlying patterns and data integrity, as shown in Fig. 3. The frequencies of the respondents' demographic profile were examined by utilizing descriptive statistics.

Source: author's calculation

The respondents' profiles have been categorized based on demographic characteristics, highlighting the importance of variables such as gender, age, educational level, employment, monthly income, type of family, and marital status, as emphasized by several studies (Barber and Odean, 2001; Jorgensen, 2007; Owusu et al., 2021). The 400 respondents' demographic profile depicts a notably male population (68.8%), with the majority aged between 41–50 years (44.8%), indicating a middle-aged, financially active group. Most participants are married (62.2%) and highly educated, with 54.8% holding postgraduate or higher degrees. Employment is primarily in the government sector (59.5%), followed by private jobs (29.3%) and self-employment (11.2%). Income levels are mostly within the middle-income bracket, with 38.5% earning Rs. 25,001 to Rs. 50,000 and 30.2% earning between Rs. 50,001 to Rs. 100,000 per month. The majority of the respondents live in joint family structures (54.8%), which may influence financial decision-making. This profile suggests a stable, educated, and professionally engaged sample with moderate to strong financial capacity and likely involvement in long-term saving and investment decisions.

4 Results

For inclusion of suitable constructs the reliability and validity is assessed. The table demonstrates that all item *factor loadings* exceed the acceptable value of 0.5, as per Chin (1998). More importantly, all measures have dominant internal consistency reliability, with values beyond the acceptable severed point of 0.7. Additionally, the *average variance extracted* values, representing the proportion of variance in the indicators explained by the latent construct, exceed the recommended threshold of 0.5, as suggested by Hair et al. (2014).

Table 1
AVE, CR, and CA

Constructs	AVE	CR	CA
Economic factors	0.504	0.891	0.890
Happiness	0.609	0.809	0.790
Non Economic Factor	0.504	0.891	0.890
Willingness to invest	0.626	0.852	0.809
Willingness to Save	0.590	0.864	0.861
Source: author's calculation			

The Table 1 demonstrates that all constructs meet the accepted thresholds for measurement validity and reliability, with AVE values exceeding 0.50, indicating acceptable convergent validity, and CR and CA values above 0.70, reflecting strong internal consistency. Economic and Non-Economic Factors show identical metrics (AVE = 0.504, CR = 0.891, CA = 0.890), while Happiness (AVE = 0.609, CR = 0.809, CA = 0.790), Willingness to Invest (AVE = 0.626, CR = 0.852, CA = 0.809), and Willingness to Save (AVE = 0.590, CR = 0.864, CA = 0.861) further confirm the robustness of the constructs.

Table 2
Fornell-Larcker criterion

Constructs	Economics factors	Happiness	Non Economic Factor	Willingness to invest	Willingness to Save
Economic factors	0.710				
Happiness	-0.256	0.781			
Non Economic Factor	0.801	-0.289	0.710		
Willingness to invest	0.501	-0.138	0.592	0.791	
Willingness to Save	0.788	-0.222	0.699	0.400	0.768
Source: author's calculation					

Finally, discriminant validity tests were conducted using the Fornell–Larcker criterion (Fornell and Larcker, 1981) to determine the distinctiveness and lack of correlation among the constructs. Economic Factors are positively associated with Non-Economic Factors (0.801), WI (0.501), and WS (0.788), indicating that favorable economic conditions enhance saving and investment behavior. Conversely, Happiness shows negative correlations with all other constructs, suggesting that higher happiness levels may reduce financial urgency, possibly due to perceived security. Non-Economic Factors significantly influence both investment (0.592) and saving behavior (0.699). A moderate positive relationship (0.400) exists between Willingness to Invest and Willingness to save, reflecting their interconnected yet distinct nature.

4.2 Measurement Model

PLS-SEM involves two types of path models: 1) measurement model elucidates the relationship between latent variables and their respective indicators, while the 2) structural model elucidates the relationships among the latent variables (Henseler et al., 2016; Tenenhaus et al., 2005). PLS-SEM method, based on regression, aims to minimize the residual variances of the endogenous variable (Hair et al., 2011).

Table 3
measurement of variable, VIF and factor loadings

Constructs	Measurement of variables	VIF	loadings
Economic factors	In general, as income level increase, saving amount also increase.	2.144	0.738
	If there is an increase in income, I would like to save the increased amount whole.	1.897	0.737
	I would like to save money for wealth creation.	2.066	0.748
	I want to save money for investment opportunities to earn income	1.635	0.690
	I would like to invest money for wealth creation.	1.325	0.571
	I consider interest rate for saving amount in bank deposits or post offices etc.	1.871	0.711
	I would like save more amount at higher interest rate rather than usual.	1.811	0.715
	I got benefited by saving schemes and willing to save for benefits	1.761	0.694
	I consider the service charges levied by on saving amount.	1.733	0.716
	I would prefer a saving account near to my resident	2.001	0.762
Non-economic factors	I often like to save in the same scheme my friends and colleagues done.	2.351	0.775
	I hear about investment opportunities from friends and colleagues	2.001	0.728
	I am confident that my investment will pay higher profits as compared to others investment	2.227	0.777
	I feel capable of using my future income to achieve my investment goals.	1.913	0.696
	I give importance to saving money from rather than investment	1.487	0.614
	I believe in investing my money rather than savings.	1.739	0.714
	I try to keep track of general economic trends.	1.638	0.668
	I regularly look for interesting investment opportunities for my money.	2.073	0.698
	I get information from T.V. and newspapers about saving.	1.935	0.709
Source: author's calculation			

Constructs	Measurement of variables	VIF	loadings
Happiness	I am not attracted to the financial part of my life.	1.888	0.706
	In general, do you feel happy now?	1.818	0.788
	Overall, how happy did you feel yesterday?	1.548	0.769
	Overall, how satisfied are you with your life nowadays?	1.789	0.767
	How do you feel contributing to retirement account or investment?	1.450	0.798
Willingness to save(W _S)	I save to conserve the secured life.	1.964	0.782
	I want to save money for my family attention like children education and marriage etc.	1.760	0.726
	I want to save money to increase the standard of living.	2.087	0.785
	I want to save money for purchase of new house.	1.778	0.739
	I want to save money for old age/ retirement planning.	2.040	0.802
	I want to save money for the meeting unforeseen contingencies.	2.062	0.771
Willingness to invest(W _I)	Stock markets are unpredictable, which is why I would never invest in stocks.	2.090	0.786
	I would invest a larger sum of money in stocks.	1.358	0.796
	The uncertainty of whether the markets will rise or fall keeps me from buying stocks.	1.714	0.758
	When I hear the word “stocks”, the term “possible loss” comes to mind immediately.	2.121	0.822
Source: author’s calculation			

The model underwent variance inflation factor (VIF) checking for collinearity problems to make sure multicollinearity problems are unlikely to skew the estimated path coefficients. The results of this assessment suggest that the structural model analysis would not be adversely affected by collinearity issues, as the VIF values were well below the maximum threshold of 10 (O’Brien, 2007). The VIF values ranged from 1.325 to 2.351 as shown in Table 4, confirming the absence of multicollinearity, the hypothesized relationships analyzed in Fig. 1. The significance level of the proposed relationships was determined by employing the bootstrapping procedure with 5,000 subsamples, as recommended by Hair et al. (2014).

Figure 4 Association of Happiness, Economic factors, Non-economic factors to W_I & W_S

Table 4
Path coefficients

Hypothesis path	Path coefficient(B)	f-square	T-values	P-values	Result
Economic factors -> WI	0.078	0.003	1.149	0.251	Rejected
Economic Factor -> WS	0.635	0.395	10.492	0.000	Accepted
Happiness -> WI	0.038	0.002	0.884	0.377	Rejected
Happiness -> WS	-0.005	0.000	0.141	0.888	Rejected
Non Economic Factor -> WI	0.540	0.159	8.160	0.000	Accepted
Non Economic Factor -> WS	0.188	0.034	3.201	0.001	Accepted
R-square (WI-0.354), R-square (WS-0.633)					
Source: author's calculation					

Table 4 provides the outcomes of the hypothesis tests, performed using bootstrapping analysis, are consolidated and displayed in the table. As per Hair et al. (2014), the structural model is estimated by analyzing various parameters such as path coefficients to determine the strength and direction of relationships between latent variables, t-values, coefficient of determination (R^2), predictive relevance (Q^2), and effect sizes (f^2). The R^2 values of 0.633 for willingness to save and 0.354 for willingness to invest indicate that the model explains 63% and 35% of the variance in these dependent variables, respectively, reflecting the combined influence of the exogenous variables. Following Cohen's (1988) criteria, where values of 0.26 denote substantial effects, 0.13 represent moderate effects, and 0.02 indicate weak effects, the explanatory power of the dependent variable in this context is substantial. Furthermore, based on Cohen's guidelines effect sizes (f^2) were computed, f^2 value of 0.02 indicates a small effect, 0.15 signifies a medium effect, and 0.35 reflects a large effect. For economic factors on WI, the calculated effect size (f-square) was (0.003), Economic factors -> WS size f-square was 0.395, Happiness -> WI, f-square was 0.002, Happiness -> WS f-square was 0.001, Non Economic Factor -> WI f-square was 0.159 Non Economic Factor -> WS f-square was 0.034 indicating a large effect of economic factors on WS and medium effect of non-economic factors on WS and WI, rest factors were indicated small or negligible effect. The study provides support when the p-values and path coefficients are analyzed to three hypothesized relationship, economic factors and willingness to save, non-economic factors with willingness to invest and willingness to save while not supporting another relationship economic factors and WI, happiness with WI and WS. Table 5 presents, economic factors and non-economic factors influencing individuals to WS, and non-economic factors influencing WI. These relationships are positive and significant, accepted at 1% and 5% significance levels, respectively. Conversely, economic factors to WI, happiness to willingness to invest, happiness to WS displayed an insignificant relationship and were rejected at 1% and 5% significance levels, respectively.

Table 5
Model fit

	Saturated model	Estimated model
SRMR(standardized root mean square residual)	0.074	0.074
d_ULS (the squared Euclidean distance)	3.246	3.263
d_G(the geodesic distance)	0.834	0.834
Chi-square	1856.830	1857.973
NFI(normed fit index)	0.752	0.752

Source: author's calculation.

Smart PLS 4.0 employs an adapted Bollen–Stine bootstrapping procedure (Dijkstra and Henseler, 2015; Bollen and Stine, 1992; Yuan and Hayashi, 2003) to generate confidence intervals for d_ULS, d_G, and SRMR criteria. The model fit indices from the PLS-SEM analysis indicate that the estimated model provides an acceptable fit to the data. The SRMR value of 0.074 is below the recommended threshold of 0.08, suggesting a good fit between the observed and predicted correlations. The values of d_ULS (3.263) and d_G (0.834) are low and closely aligned with those of the saturated model, indicating minimal discrepancy between the empirical and model-implied correlation matrices. The Chi-square values for both the saturated (1856.830) and estimated (1857.973) models are nearly identical, showing that the simplification of the model does not significantly compromise its fit. Moreover, the Normed Fit Index (NFI) value of 0.752 exceeds the acceptable cutoff of 0.70, supporting the adequacy of the model. Collectively, these results confirm that the estimated model is well-suited for explaining the structural relationships among the constructs in the study.

5. Discussions, Implications and limitations

The study explores three key dimensions—happiness, economic factors, and non-economic factors—and employs Structural Equation Modeling (SEM) to examine the determinants influencing individuals' saving and investment behavior in a developing economy. Analysis of p-values and path coefficients supports three hypothesized relationships: economic factors positively impact WS; non-economic factors influence both WS and WI. However, the relationships between economic factors and willingness to invest, as well as happiness with willingness to invest and save, were found to be insignificant and thus rejected. Notably, non-economic factors demonstrated a significant positive effect on investment behavior. The research focused on most literate districts Hamirpur and Una of Himachal Pradesh an Indian state, (Census, 2011), the data was gathered via using convenience sampling method. While the study offers insights into how behavioral and economic dimensions shape investment decisions, its scope is limited to individual investors, excluding institutional ones. It also generalizes the effect of financial advertisements across all financial products, despite potential differences between sectors like banking, insurance, and mutual funds. Future research should include a broader geographic and

demographic scope, such as urban areas and different educational levels, to enhance understanding. Additionally, incorporating more variables—such as investment motives, decision types, planning, and risk management—would provide a more comprehensive analysis. Although the “Psychology of Risk” showed no significant influence, the study highlights critical determinants affecting investor behavior and can serve as practical guidance for individual investors aiming to make informed and profitable investment choices. The paper by Kumar et al. (2024) uses AHP and TOPSIS to evaluate critical parameters enhancing efficiency and decision-making, when applied to saving and investment behavior can help prioritize financial choices and optimize resource allocation based on multiple influencing factors. The study by Kumar, et al., studied (2024) sustainability using AHP and TOPSIS. It highlights efficient resource use and digital integration, offering insights for optimizing financial planning. A study identifies various issues related to financial behavior and analyzed factors affecting availability quality and reliability with fuzzy model (Kumar et al. 2024a, b, c). Such efficiency parallels individual saving-investment behavior focused on long-term sustainability and informed decision-making. The emerging field of happiness finance—an extension of happiness economics—proposes that subjective well-being should be integrated into financial decision-making frameworks. Individual characteristics may provide insight into why income and happiness are often weakly correlated in happiness studies, where income is endogenous. This work could also clarify why using income as an instrument in happiness equations increases its coefficient (Blanchflower & Oswald, 2011).

6. Conclusions

In conclusion, this study provides a nuanced understanding of the economic and non-economic factors influencing Indian individuals' WS and WI, with a particular focus on their behavior in the context of financial institutions and the stock market. Moreover paper examines the relationship and between subjective happiness and saving and investment and its impact through financial institutions and stocks. As many of the researchers have prior studied onBy analyzing data from 400 respondents, it identifies key economic indicators such as income, interest rates, and financial institutions, alongside non-economic factors like financial literacy, social norms, and saving attitudes, as significant drivers of investment willingness. While the influence of happiness on saving and investment behavior yielded mixed results, the research highlights the growing importance of behavioral insights in understanding investor decision-making. The study's practical implications lie in guiding policymakers, financial institutions, and educators in developing targeted strategies to enhance financial engagement and promote investment participation. However, due to its regional focus on northern India, the findings may not be fully generalizable across the country. Future research should expand to include other regions, adopt experimental methods, and integrate additional factors such as political, technological, and psychological variables to develop a more comprehensive model of investor behavior.

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Figures

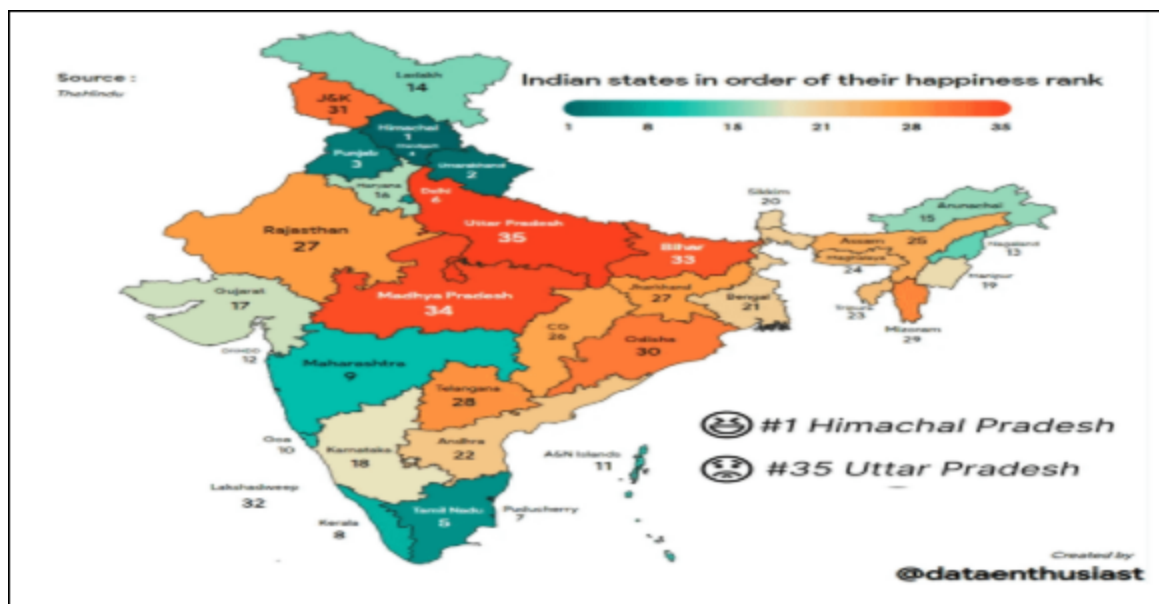


Figure 1

Happiness rank of Indian states

Source: The Hindu (2022)

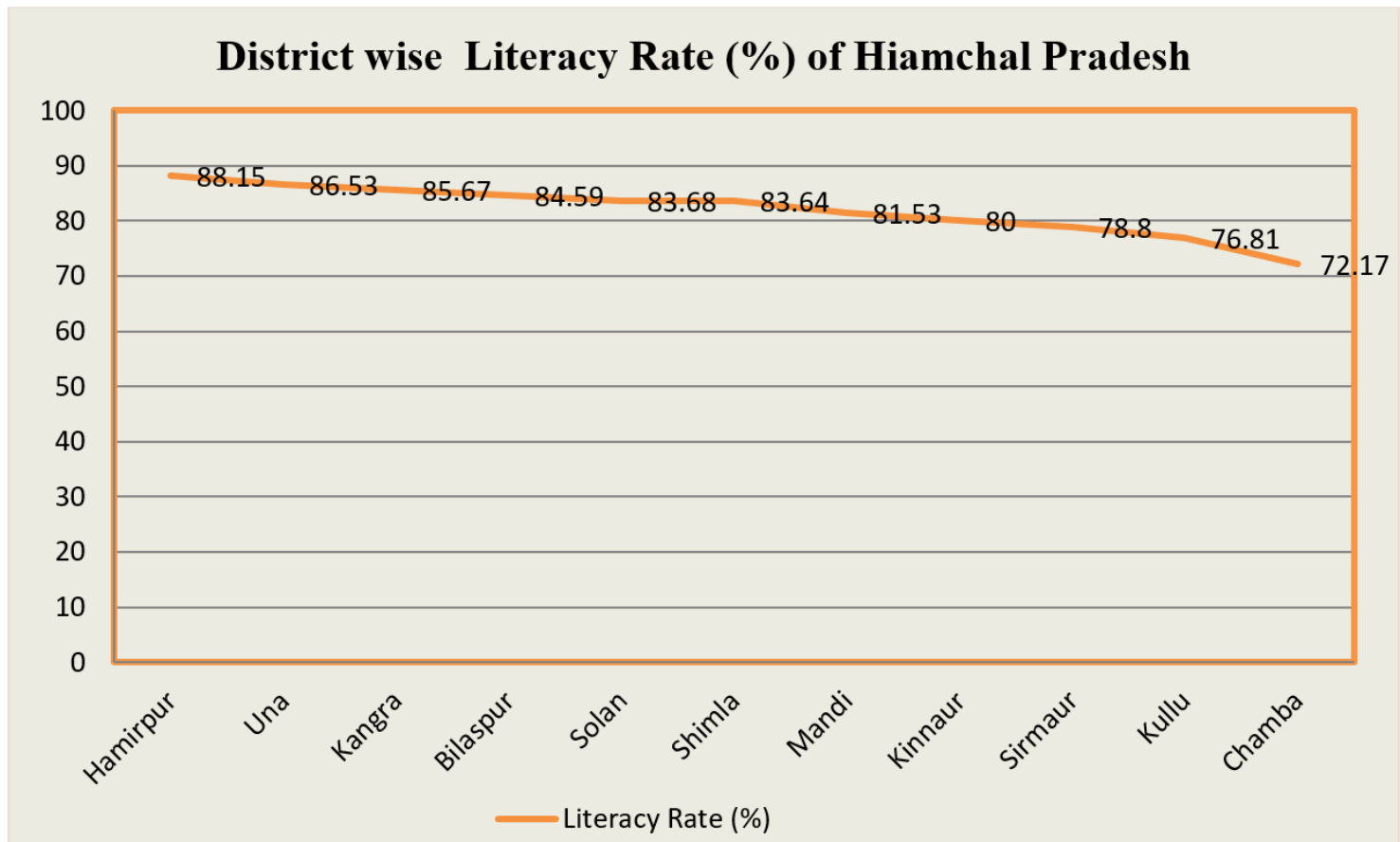


Figure 2

District wise Literacy rate of Himachal Pradesh

Source: (Census, 2011)

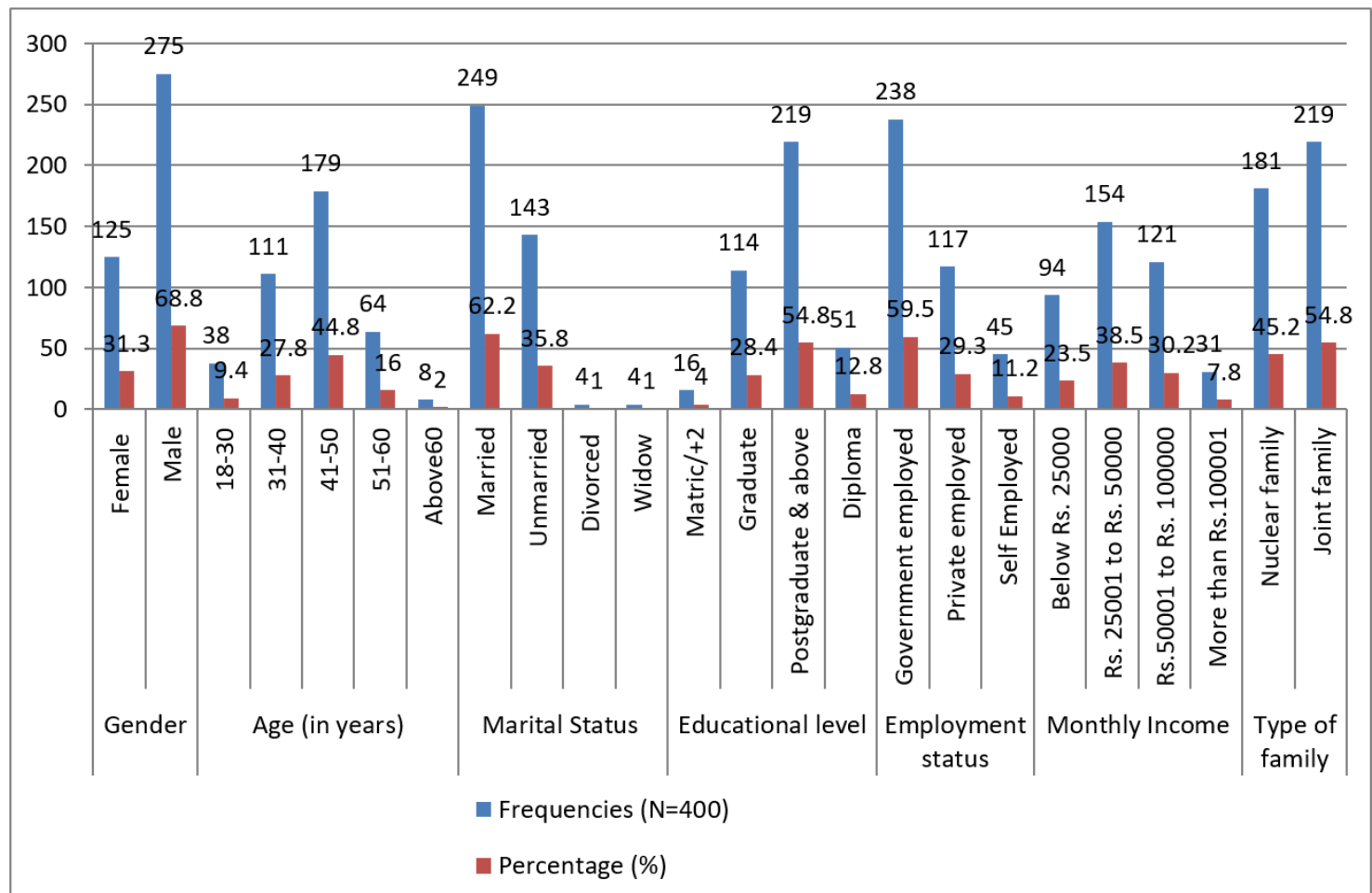


Figure 3

Demographic profile

Source: author’s calculation

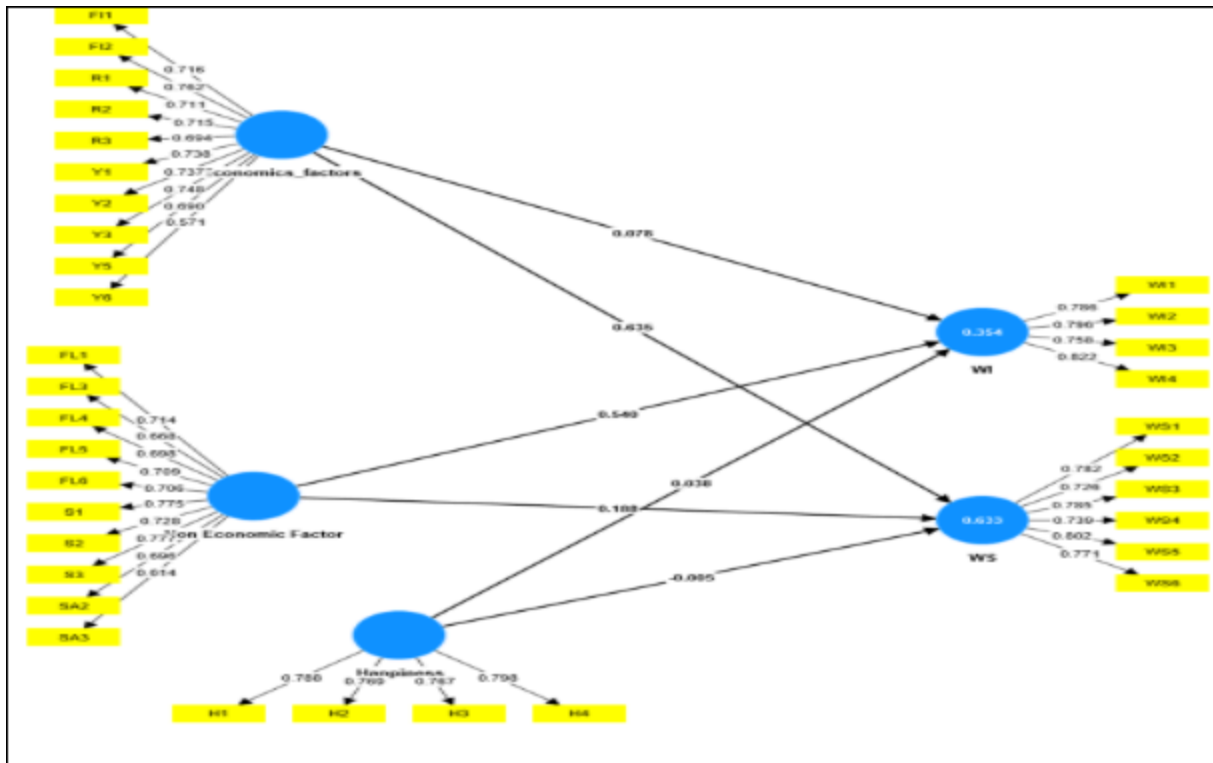


Figure 4

Association of Happiness, Economic factors, Non-economic factors to WI & WS

Figure 4 structural model between constructs based on the PLS algorithm.