



The Association Between Perceived Financial Literacy and Actual Financial Literacy



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Introduction

- Financial literacy and financial confidence are important predictors of whether an individual makes responsible financial decisions (Toker, 2015).
- Toker (2015) finds that individuals who incorrectly assess their financial literacy make suboptimal financial decisions. Financial confidence and literacy vary by education level and gender (Morris et. al., 2022)

Research Questions

- Does U.S. adults' self-assessed financial literacy accurately predict their actual financial literacy?
- Does this association vary by sex and college education?

Methods

Sample

- Respondents (n=6,395) were drawn from the Consumer Financial Protection Bureau's 2017 Financial Well-Being Survey.
- The sample represents the non-institutionalized adult (18+) population in the 50 U.S. states and Washington, D.C.

Measures

- Perceived financial literacy: Measured from the question "How would you assess your overall financial literacy?" Responses ranged from 1 (very low) to 7 (very high).
- Financial literacy: Measured with a series of 9 questions on a variety of financial knowledge questions. Responses were summed to create the financial literacy variable.
- Gender: Indicator where females have a 2 and men have a 1
- College: Education variable was collapsed to form an indicator where college-education participants have a 1 and those who do not have a 0 for this variable.

Results

Figure 1: Multiple Regression Table

| Independent Variables | Point Estimate | Confidence Intervals | P-value |
|---|----------------|----------------------|---------|
| Self-Assessed Financial Literacy | 0.287 | [0.166, 0.407] | 0 |
| Gender | -0.247 | [-0.598, 0.103] | 0.167 |
| College | 0.674 | [0.272, 1.076] | 0.001 |
| Self-Assessed Financial Literacy* Gender | -0.063 | [-0.136, 0.001] | 0.089 |
| Self-Assessed Financial Literacy* College | 0.108 | [0.028, 0.189] | 0.008 |
| Constant | 5.229 | [4.715, 5.88] | 0 |

Multivariate

- Regressions showed that self-assessed financial literacy was significantly and positively associated with financial literacy, after controlling for gender and college education.
- College was found to significantly moderate the relationship between financial confidence and financial literacy. The association was stronger for individuals with a college education.

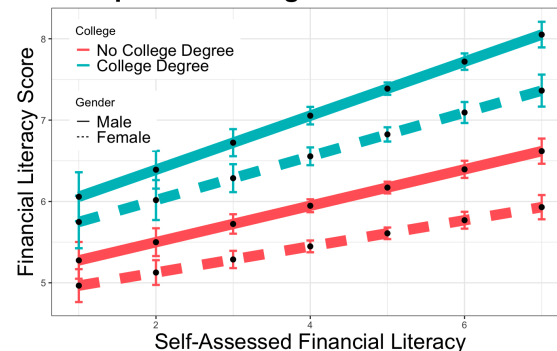


Figure 2: Multiple Regression Plot

Discussion

- Self-assessed financial literacy and the college indicator are positively related to financial literacy.
- The interaction term between gender and financial confidence just missed statistical significance.
- The relationship between financial confidence and literacy is important because those with mismatches in their financial literacy and confidence make sub-optimal decisions (Morris et. al., 2022).
- We cannot conclude causality because our data was observational and did not allow for us to use causal methods.

References

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