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FINANCIAL LITERACY: A REVIEW OF LITERATURE

Abstract:

Financial education programs that are being conducted in many countries are relatively new. Therefore, literature on financial literacy is also a developing field which has not yet reached maturity. This paper provides a review current research on financial literacy and identifies gaps in the literature. The paper begins by discussing attempts to define financial literacy. The three dimensions of the financial literacy -financial knowledge, financial attitudes, and financial behavior- are discussed in detail and the interrelationships between these three dimensions are presented. The impact of financial knowledge on attitudes and on actual financial behavior is given special emphasis. Second, literature on the measurement of financial literacy is presented including attempts to come up with a financial literacy scale with desirable psychometric properties. Then, research on determinants of financial literacy is reviewed. Demographic and socio-economic variables as well as psychological and motivational factors are reviewed as potential determinants of financial literacy. The impact of financial literacy on financial well-being, retirement savings, or credit card debt is also discussed. Studies focusing on retirees, working adults, and students are separately presented. Finally, financial education efforts in several countries are discussed and findings from developed and developing countries are compared. The paper concludes with policy recommendations and suggestions for further research.

Keywords:

financial literacy; financial education; financial research

JEL Classification: D14, D12