

Financial Literacy among the Young: Just the Facts

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We examine financial literacy using data resulting from a set of questions included in the most recent wave of the National Longitudinal Survey of Youth.

Three questions that was used to test financial literacy:

- Suppose you had \$100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money to grow: more than \$102, exactly \$102, less than \$102?
- Imagine that the interest rate on your savings account was 1% per year and inflation was 2% per year. After 1 year, would you be able to buy more than, exactly the same as, or less than today with the money in this account?
- Do you think that the following statement is true or false? "Buying a single company stock usually provides a safer return than a stock mutual fund."

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Financial illiteracy is widespread

From a representative sample of respondents ages 23-28:

- About 80% of respondents answered the interest rates question correctly.
- Only a little above 50% of the sample answered the inflation question correctly.
- Less than 50% of the sample correctly answered the question about risk diversification while about 37% responded that they do not know the answer.
- Overall, only 27% of young respondents can answer all three questions correctly.

Financial Literacy Initiative: <http://www.dartmouth.edu/~alusardi/fli.html>

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