Financial Literacy, Illuminated

It’s a FLAT World

Annamaria Lusardi
Academic Director: Global Financial Literacy Excellence Center (GFLEC)
The George Washington School of Business
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  (correct)
- Exactly $102
- Less than $102
- Don’t know
- Refuse to answer
Imagine that the interest rate on your savings account was 1% per year and inflation was 2% per year.

After 1 year, with the money in this account, would you be able to buy…

- More than today
- Exactly the same as today
- Less than today *(correct)*
- Don’t know
- Refuse to answer
“Do you think the following statement is true or false? *Buying a single company stock usually provides a safer return than a stock mutual fund.*”

- True
- False (correct)
- Don’t know
- Refuse to answer
Financial Literacy Around The World (FLAT World)

USA
The Netherlands
Germany
Italy
Sweden
Russia
Japan
New Zealand

Australia
Switzerland
France
Romania
# How much do Americans know?

<table>
<thead>
<tr>
<th></th>
<th>Correct</th>
<th>Incorrect</th>
<th>DK</th>
<th>Refuse</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest rate</td>
<td>65%</td>
<td>21%</td>
<td>13%</td>
<td>1%</td>
</tr>
<tr>
<td>Inflation</td>
<td>64%</td>
<td>20%</td>
<td>14%</td>
<td>2%</td>
</tr>
<tr>
<td>Risk diversif.</td>
<td>52%</td>
<td>13%</td>
<td>34%</td>
<td>1%</td>
</tr>
</tbody>
</table>

Only 30% of Americans answered all three questions correctly.
The world is... *flat*!
Financial literacy and women

- In all surveyed countries, women answered the financial literacy questions in the same way...
Women say:

I do not know!
“Do not know” responses by gender (ages 23-28, USA)
“Do not know” responses by gender in USA, Germany, The Netherlands, and Japan

<table>
<thead>
<tr>
<th>Country</th>
<th>Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>34%</td>
<td>50%</td>
</tr>
<tr>
<td>Germany</td>
<td>30%</td>
<td>43%</td>
</tr>
<tr>
<td>The Netherlands</td>
<td>29%</td>
<td>46%</td>
</tr>
<tr>
<td>Japan</td>
<td>53%</td>
<td>69%</td>
</tr>
</tbody>
</table>
Financial literacy affects financial behavior

Debt and debt management

Investments

Planning & wealth accumulation
FORECLOSURE
Financial literacy, a new skill for the 21st century