The Acquisition of Financial Literacy Over the Life Course

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This paper analyzes the relationship between financial fragility, early-life schooling and cognition, and investment in financial literacy over the life course. We build a simple two-period model of investment in financial literacy in which an agent can decide to invest in financial literacy so as to access better financial opportunities in the next period. The agent can also decide to borrow or save, with any borrowing reimbursed at a later period. The model shows that an optimal strategy of investment in financial literacy over the life span should be an increasing function of the probability of default. The greater the exposure to financial risks over time, the larger the incentive to invest in financial literacy. Using the Wisconsin Longitudinal Study, a survey that has followed individuals from Wisconsin since 1957, we test the conclusions of our model. We find that late-life financial literacy is positively related to financial fragility and early-life schooling and cognition. We also observe heterogeneous behaviors across population subgroups that are more or less exposed to financial risks such as women and the less educated.