

**3rd Global Policy Research Symposium to Advance
Financial Literacy
May 7, 2015**



**HARNESSING FINANCIAL EDUCATION TO SPUR
ENTREPRENEURSHIP AND INNOVATION**

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3rd Policy Research Symposium to Advance Financial Literacy

- This is the Third Policy Research Symposium
- Presentations and information for the 2nd Symposium are posted online
- New theme



Financial education and entrepreneurship and innovation

- The focus of this symposium: Harnessing financial education to spur entrepreneurship and innovation
- Entrepreneurs are the backbone of the economy
- Research shows there are many determinants of entrepreneurship
- Financial literacy can play an important role in entrepreneurship and entrepreneurial success

The importance of entrepreneurship

- Entrepreneurs are the backbone of the economy, even in big countries like the U.S.
 - 99.7 percent of U.S. firms are small businesses (2010 Census)
 - About half of the U.S. private sector workforce is employed by small business
 - Since 1995, small businesses created two out of every three new jobs in the U.S.
 - Small businesses lead the way in terms of tech and new product innovation (according to Small Business Administration studies, they produce more patents)

The importance of entrepreneurship (continued)

- Small businesses become big businesses
- Apple started in Steve Jobs' garage.
- Home-based non-employing small businesses become small employers, which in turn become big businesses



Academic research on entrepreneurship

- Many factors contribute to entrepreneurship and entrepreneurial success
 - Attitude toward risk and optimism
 - Access to capital
 - Family background
 - Peer effects (clusters of entrepreneurs)
 - Cognitive ability
 - Many more

What about financial literacy?

Academic research on entrepreneurship (continued)

- But much remains unexplained in the data
 - Measurement and data issues
- Comprehensive data on entrepreneurs is much needed
 - Combine data on entrepreneurship and financial literacy/capability

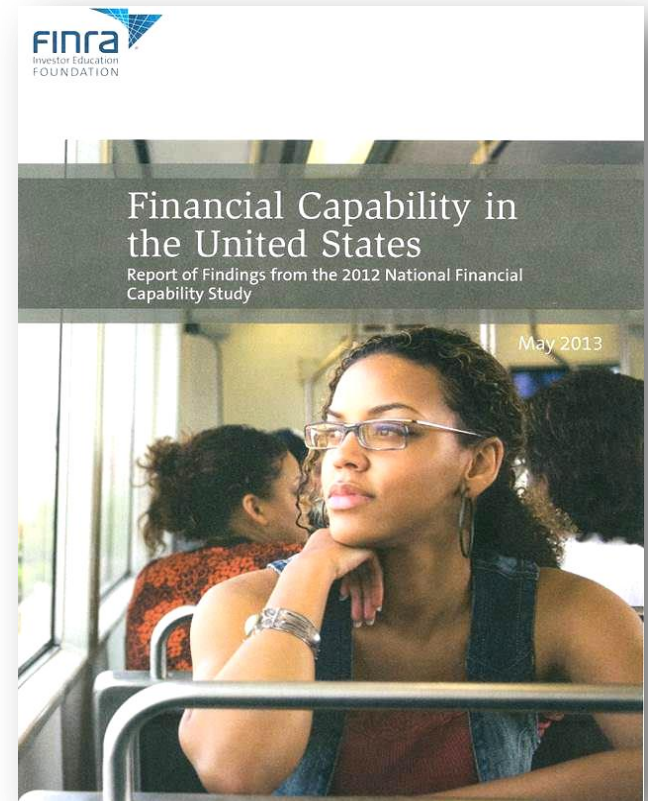
Empirical evidence on financial literacy

- Levels of financial literacy are low around the world
 - Financial Literacy around the World (FLAT World) project
 - *OECD data*
- Very low levels of “risk literacy”
 - Risk is the most difficult concept for people to grasp (see Risk Literacy, Lusardi, 2015)



2012 National Financial Capability Study (NFCS)

- Online survey of more than 25,000 respondents
- First wave in 2009, second wave in 2012
- Objective: benchmark and better understand financial capability in America
- Representative of the U.S. population
- GFLEC has been academic advisor on the survey



We are about to field the 2015 wave

How much do people know?

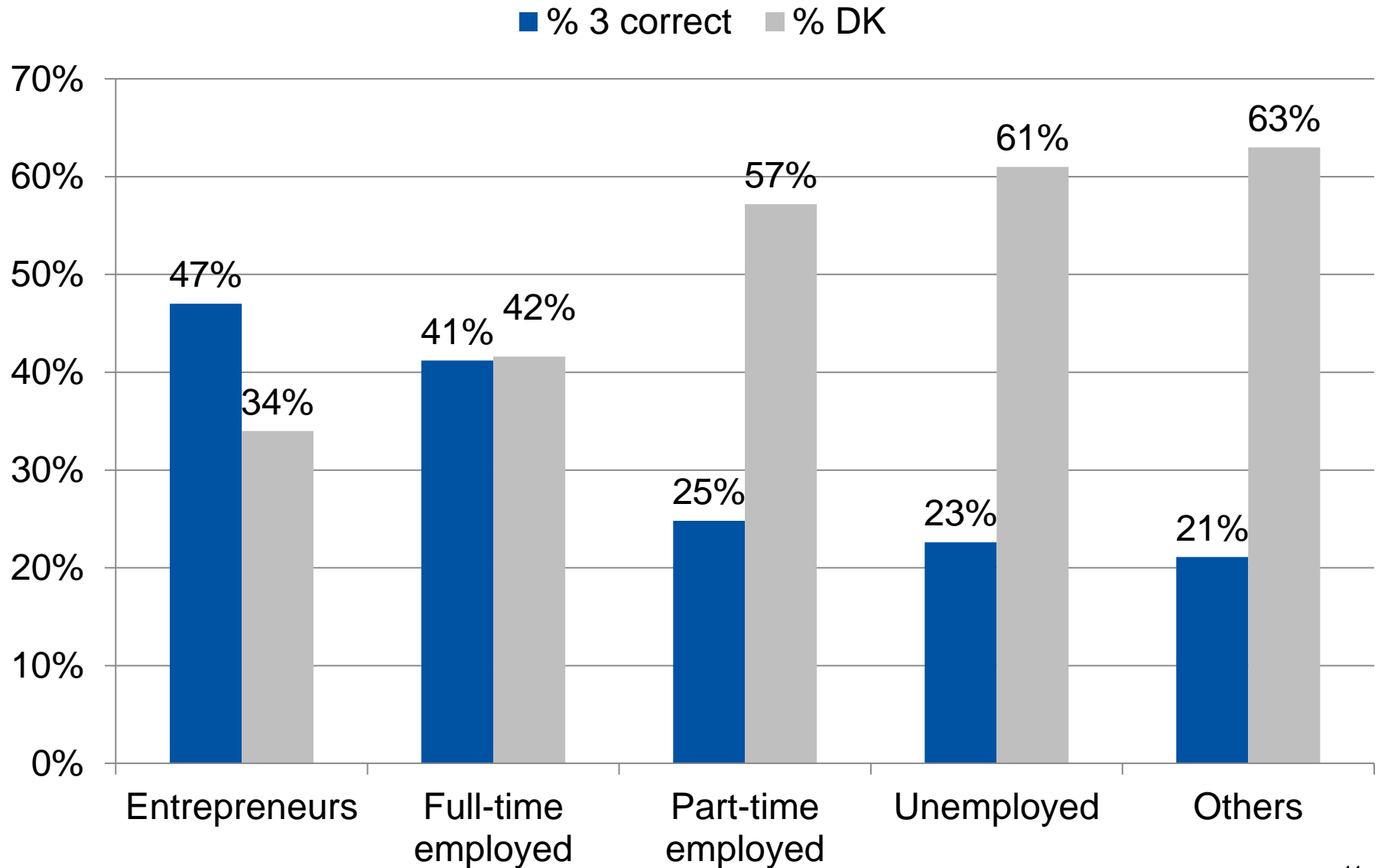
- 1. “Suppose you had \$100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money to grow?”**

 - More than \$102
 - Exactly \$102
 - Less than \$102
 - Don't know
 - Refuse to answer
- 2. “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
 - Don't know
 - Refuse to answer
- 3. “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
 - Don't know
 - Refuse to answer

Financial literacy and labor market activity (age 23-65, retired excluded)



Likelihood of being an entrepreneur

	(1)	(2)	(3)	(4)
3 FL questions correct	0.035*** (0.004)	0.027*** (0.004)	0.020*** (0.004)	0.018*** (0.004)
Age 55+		0.025** (0.012)	0.022* (0.012)	0.023* (0.012)
Preference for risk			0.021*** (0.004)	0.020*** (0.004)
Income shock			0.028*** (0.004)	0.028*** (0.004)
High school graduate				0.009 (0.007)
Some college				0.019*** (0.007)
College graduate				0.023*** (0.008)
Other variables	no	no	no	yes
<i>N</i>	18,081	18,081	18,081	18,081
R-squared	0.005	0.009	0.020	0.021

What is the role of financial literacy?

- Financial literacy is a significant determinant of the likelihood of being an entrepreneur
- Education also matters but financial literacy has an effect beyond education
- Other estimation methods (to account for endogeneity) confirm the importance of financial literacy for entrepreneurship

Financial literacy and financial outcomes

- We study whether financial literacy influences financial outcomes among entrepreneurs, such as
 - Having too much debt
 - Capacity to buffer against shocks
 - Bankruptcy
- Our empirical analysis shows that financial literacy is associated with better financial outcomes. Highly financially literate entrepreneurs are:
 - 24% less likely to be over-indebted
 - 20% less likely to be vulnerable to shocks
 - Over 60% less likely to go bankrupt

Paper is posted on GFLEC website: www.gflec.org

From research to applications

What can be done to promote entrepreneurship around the world?

- We will hear a lot today about what can be done
- We will also hear testimonials – the real people behind the numbers



From research to applications (continued)

- Share experiences
- We are looking forward to an interactive symposium
 - Leave time to ask questions or to mention projects
 - Learning from each other

Thank you!

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