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# Restoring Rational Choice: The Challenge of Consumer Financial Regulation

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### Article Information

#### Abstract

This lecture considers the case for consumer financial regulation in an environment where many households lack the knowledge to manage their financial affairs effectively. The lecture argues that financial ignorance is pervasive and unsurprising given the complexity of modern financial products, and that it contributes meaningfully to the evolution of wealth inequality. The lecture uses a stylized model to discuss the welfare economics of paternalistic intervention in financial markets, and discusses several specific examples including asset allocation in retirement savings

fees for unsecured short-term borrowing, and reverse mortgages.

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## Additional Materials

[Author Disclosure Statement\(s\) \(9.20 KB\)](#)

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## JEL Classification

**D14** Household Saving; Personal Finance

**G18** General Financial Markets: Government Policy and Regulation

**G28** Financial Institutions and Services: Government Policy and Regulation

**L51** Economics of Regulation

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