



# The Economic Importance of Financial Literacy: Theory and Evidence

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## Article Information

### Abstract

This paper undertakes an assessment of a rapidly growing body of economic research on financial literacy. We start with an overview of theoretical research, which casts financial knowledge as a form of investment in human capital. Endogenizing financial knowledge has important implications for welfare, as well as policies intended to enhance levels of financial knowledge in the larger population. Next, we draw on recent surveys to establish how much (or how little) people know and identify the least financially savvy population subgroups. This is followed by an examination of the impact of financial literacy on economic decision making in the United States and elsewhere. While the literature is still young, conclusions may be drawn about the effects and consequences of financial illiteracy and what works to remedy these gaps. A final section offers thoughts on what remains to be learned if researchers are to better inform theoretical and empirical models as well as public policy.

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