



Journal of Economic Literature

ISSN 0022-0515 (Print) | ISSN 2328-8175 (Online)

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The Economic Importance of Financial Literacy: Theory and Evidence

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JOURNAL OF ECONOMIC LITERATURE
VOL. 52, NO. 1, MARCH 2014
(pp. 5–44)

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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 informed population subgroups. This is followed by an examination of the effects and consequences of financial literacy and what works to remedy these gaps. The 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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Citation

Lusardi, Annamaria, and Olivia S. Mitchell. 2014. "The Economic Importance of Financial Literacy: Theory and Evidence." *Journal of Economic Literature*, 52 (1): 5–44.

DOI: 10.1257/jel.52.1.5

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[Author Disclosure Statement\(s\) \(73.90 KB\)](#)

JEL Classification

A20 Economic Education and Teaching of Economics: General

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G11 Portfolio Choice; Investment Decisions

I20 Education and Research Institutions: General

J26 Retirement; Retirement Policies

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