Financial Literacy: An Essential Tool for Informed Consumer Choice?

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Increasingly, individuals are in charge of their own financial security and are confronted with ever more complex financial instruments. However, there is evidence that many individuals are not well-equipped to make sound saving decisions. This paper demonstrates widespread financial illiteracy among the U.S. population, particularly among specific demographic groups. Those with low education, women, African-Americans, and Hispanics display particularly low levels of literacy. Financial literacy impacts financial decision-making. Failure to plan for retirement, lack of participation in the stock market, and poor borrowing behavior can all be linked to ignorance of basic financial concepts. While financial education programs can result in improved saving behavior and financial decision-making, much can be done to improve these programs' effectiveness.

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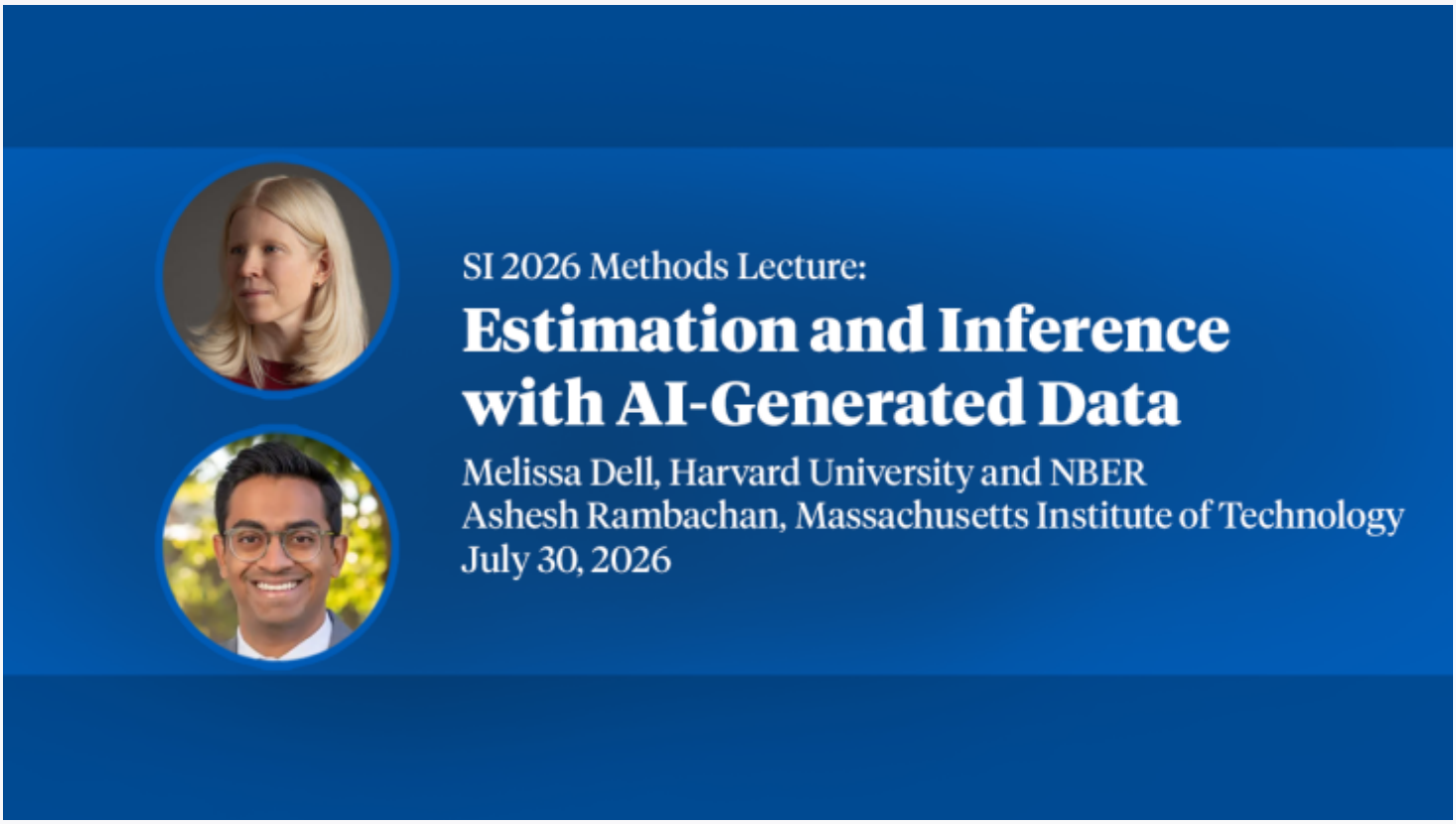

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