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# Exponential growth bias and financial literacy

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## Abstract

The tendency to underestimate the future value of a variable growing at a constant rate, an example of exponential growth bias, has been linked to household financial decision-making. We show that exponential growth bias and standard measures of financial literacy are negatively correlated in a representative sample of Swedish adults. Since financial literacy is linked to household decision-making, our results indicate that examining the relationship between exponential growth bias and household finance without adequate controls for financial literacy may generate biased results.

Keywords:

exponential growth bias

financial literacy

household finance

survey data

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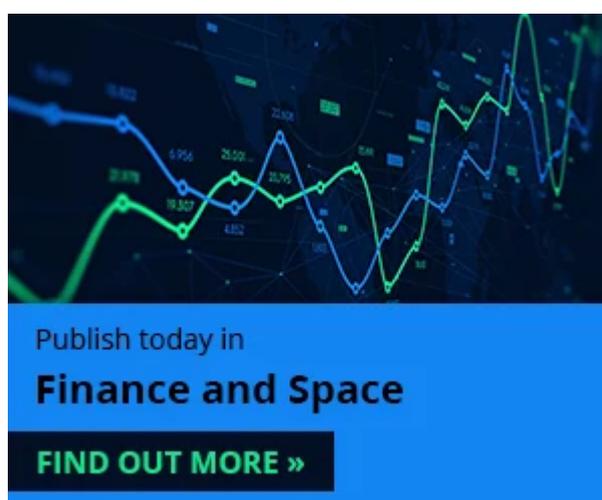
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## Notes

Note: The views expressed here are the views of the authors in their capacity as researchers and do not represent the views of the Swedish Ministry of Finance.

<sup>1</sup> 'Suppose you invest 100 SEK and the interest rate is 7% per year. If you don't withdraw any money, how much money do you have in this account after 30 years?'

<sup>2</sup> We elicit exponential growth bias in a slightly different way from Stango and Zinman (2009). They construct their measure indirectly based on two questions, while we use the result of one question that directly measures the bias. This may explain why such a high fraction of their sample, 98%, is in this range.



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