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Financial literacy and use of payday loans in the United States

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ABSTRACT

Using the 2012 National Financial Capability Study, this study investigated the relationships between financial literacy and the use of payday loans. The study also developed a new variable to measure the effect of financial literacy on the use of payday loans. Results from the study show that financial literacy has a positive effect on the use of payday loans. The negative effect of financial literacy on the use of payday loans is not significant. The instrument variable approach is used to estimate the effect of financial literacy on the use of payday loans. The results show that financial literacy has a positive effect on the use of payday loans. The negative effect of financial literacy on the use of payday loans is not significant. The instrument variable approach is used to estimate the effect of financial literacy on the use of payday loans.

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Disclosure statement

No potential conflict of interest was reported by the authors.

Notes

¹ With respect to financial literacy variables, we dropped cases where the respondent chose ‘prefer not to say’ as the answer to the objective financial knowledge questions and where the respondent answered ‘prefer not to say’ or ‘don’t know’ to the subjective knowledge question. And all other ‘prefer not to say’ responses to the control variables are also excluded.

² Full results are available from the authors upon request.

³ Full results are available from the authors upon request.

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