



The European Journal of Finance >

Volume 26, 2020 - [Issue 4-5](#): Financial Literacy and Responsible Finance in the FinTech Era: Capabilities and Challenges

3,222

Views

36

CrossRef citations to date

19

Altmetric


Articles


# Financial literacy and student debt

Nikolaos Artavanis  & Soumya Karra

Pages 382-401 | Received 14 Jan 2019, Accepted 26 Nov 2019, Published online: 22 Jan 2020

 Cite this article

 <https://doi.org/10.1080/1351847X.2019.1711435>

 Check for updates

Sample our  
Area Studies  
Journals



>> [Sign in here](#) to start your access  
to the latest two volumes for 14 days

 Full Article

 Figures & data

 References

 Citations

 Metrics

 Reprints & Permissions

Read this article

## We Care About Your Privacy

We and our 907 partners store and access personal data, like browsing data or unique identifiers, on your device. Selecting "I Accept" enables tracking technologies to support the purposes shown under "we and our partners process data to provide," whereas selecting "Reject All" or withdrawing your consent will disable them. If trackers are disabled, some content and ads you see may not be as relevant to you. You can resurface this menu to change your choices or withdraw consent at any time by clicking the ["privacy preferences"] link on the bottom of the webpage [or the floating icon on the bottom-left of the webpage, if applicable]. Your choices will have effect within our Website. For more details, refer to our Privacy Policy. [Here](#)

We and our partners process data to provide:

...

 I Accept

Reject All

Show Purpose



KEYWORDS:

## JEL CLASSIFICATIONS:

D84

122

123

J16

## Acknowledgements

The authors are thankful to Stefanos Kechagias, Georgios Panos, Carly Urban, George Tziros, two anonymous referees, and seminar participants at the IFIN 2018 (University of Glasgow), the FMA 2019 Annual meeting, the HEFW 2019 Summit, and Virginia Tech for helpful comments and suggestions. The authors also wish to thank student respondents who participated in our survey. All errors are our own.

## Disclosure statement

No potential conflict of interest was reported by the authors.

## Notes

1 It is im  
hold, as  
conserva

2 The equity is a  
necessa  
results in  
default (2010).

3 A deficit in financial literacy is associated with poor financial outcomes and propensity to default on loans, leading to sub-optimal investment strategies (Van Rooij, Lusardi, and Alessie [2011](#); Hastings and Jeleada-Ashton [2008](#)) and

use of credit instruments (Lusardi and Tufano [2015](#)), lower rates of wealth accumulation (Lusardi, Michaud, and Mitchell [2017](#)) and less efficient wealth management (Hilgert, Hogarth, and Beverly [2003](#)) and retirement planning (Lusardi and Mitchell [2007](#), [2008](#)).

4 We find that students that respond 'I do not know' in questions 1 and 2 are less likely to answer the remaining two questions correctly and more likely to answer them both incorrectly. However, this pattern is reversed in question 3. Interestingly, the first two questions involve computations, while the third relies purely on financial knowledge. It is plausible that students with strong numerical skills but no financial knowledge, prefer to abstain from answering the last question.

5 It is important to note that our minority student sample size is limited (71), but it is representative of the university's enrollment.

6 The financial literacy level of Asian students is not due to the influx of international students; in fact, these students exhibit similar literacy rates (38.9%) to Asian in-state students.

7 We note that these figures are self-reported. Akers and Chingos ([2014](#)) find that undergraduates underestimate the amount of student debt they hold, in which case, our estimates can be seen as a lower bound of the actual underestimation of student loan payments.

8 Among first-generation students, 23% of the respective percentages

9 In a recent study, student borrowers did not find any corroborating evidence at financial aid offices. Conzelmann, and Australian government provision

10 Our results show that low-literacy students

11 For instance, a question and the use of map points, a bias of up to \$500 may appear, even if the student responds

correctly. This is the case, for example, if the actual monthly payment is \$200 and the respondent marks \$200–300 per month as the expected amount to pay. Due to the use of the midpoint \$250, the student will appear to underestimate her payments by \$600 annually.

12 This creates a different type of measurement error that we attempt to address by focusing on large payment underestimations (see endnote 11).

13 For the extreme brackets ‘less than \$30,000’ and ‘more than \$70,000’, we use \$25,000 and \$75,000, respectively.

14 Differences in expected remuneration between low and high financial literacy seniors remain large, but the power of the sample is low, due to the reduced sample size.

15 Widely used cutoff points are 36% for total debt (Quercia, McCarthy, and Wachter [2003](#)) and 28% for just housing expenses (front-end ratio). Federal Housing Administration limits for qualifying mortgages are 31% and 43%, for front-end and back-end ratios, respectively.

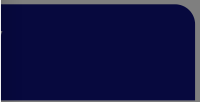
16 It should be noted that our estimates are conservative as expected salaries refer to before-taxes income.

17 See S

×

Share

Related



Information for

- Authors
- R&D professionals
- Editors
- Librarians
- Societies

Opportunities

- Reprints and e-prints
- Advertising solutions
- Accelerated publication
- Corporate access solutions

Open access

- Overview
- Open journals
- Open Select
- Dove Medical Press
- F1000Research

Help and information

- Help and contact
- Newsroom
- All journals
- Books

Keep up to date

Register to receive personalised research and resources by email

 Sign me up



Copyright © 2023

Accessibility

Registered in England  
5 Howick Place

Wiley or Francis Group  
a John Wiley & Sons business

