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Financial literacy and student debt

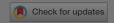
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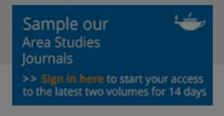
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ABSTRACT

Using a large sample of over 1000 students from a major, land-grant, public university in Massachusetts, we examine the financial literacy level of college students, and its

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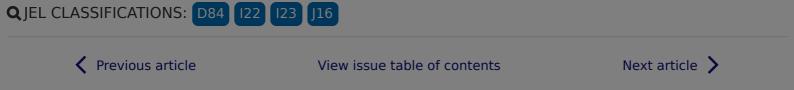
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Acknowledgements

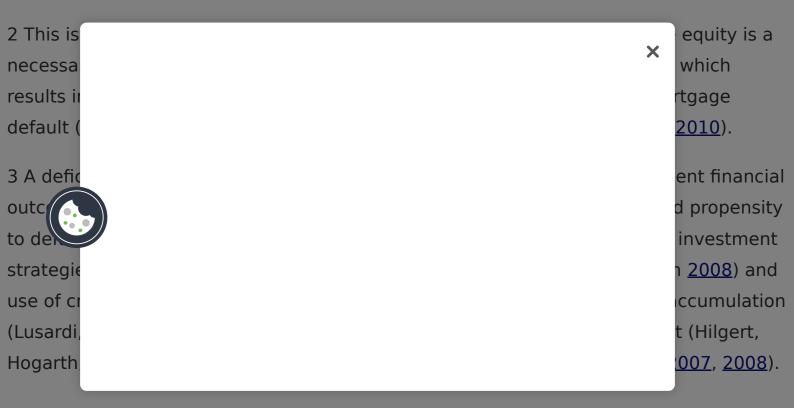
The authors are thankful to Stefanos Kechagias, Georgios Panos, Carly Urban, George Tziros, two anonymous referees, and seminar participants at the IFIN 2018 (University of Glasgow), the FMA 2019 Annual meeting, the HEFW 2019 Summit, and Virginia Tech for helpful comments and suggestions. The authors 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 important to note that if students also underestimate the amount of debt they hold, as suggested by Akers and Chingos (2014), then our estimates are by definition conservative and they constitute lower bounds of the actual underestimation.



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 students who report their interest rate, about 30% of minority and 23% of first-generation students borrow at the high-cost brackets (6–12%), when the respective percentage for the entire sample is just 17%.

9 In a recent study, Anderson, Conzelmann, and Austin Lacy (2018) find that student borrowers exhibit higher student debt literacy than non-borrowers. We do not find any Wing at corrobor Conzelmann, financia and Aus vernment provisio nd low-10 Our r litera stion and 11 For the use responds

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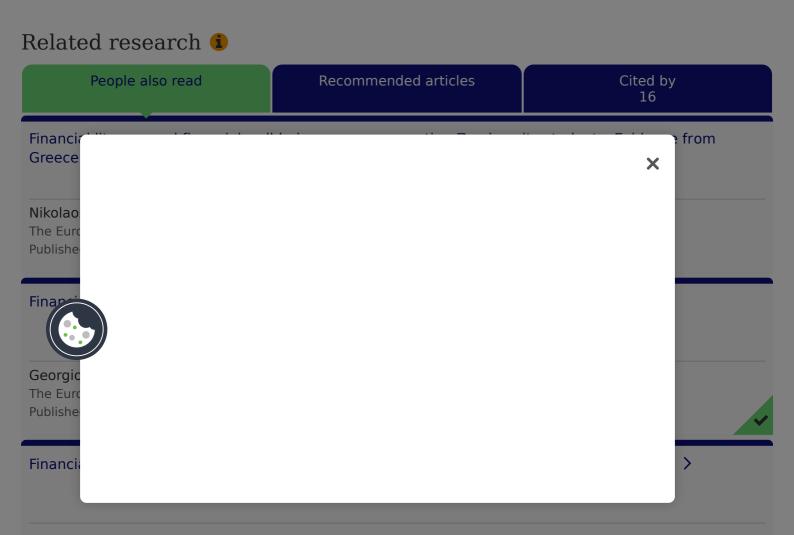
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- 12 This creates a different type of measurement error that we attempt to address by focusing on large payment underestimations (see endnote 11).
- 13 For the extreme brackets 'less than \$30,000' and 'more than \$70,000', we use \$25,000 and \$75,000, 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 Sections 3.3 and 3.4 for a discussion on these concerns.



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