

The Sorry State of Financial Literacy

Zubin Jelveh / September 20, 2009

From a new [NBER paper](#) by Annamaria Lusardi, Olivia Mitchell, and Vilsa Curto ([free version](#)):

We found that most young adults are not well equipped to make financial decisions: only 27% of young people in our sample possessed knowledge of basic financial concepts including inflation and risk diversification and could do simple interest rate calculations. Financial illiteracy is not only widespread but is particularly acute among specific groups, such as women, Blacks, Hispanics, and those with low educational attainment.

The results are based on answers from 7,138 young adults ranging in age from 23 to 28 in 2007-08.

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Unlike some bloggers, I don't think there's anywhere near enough evidence to show that financial innovation has been, net-net, a bad thing. And I'm with Robert Shiller in thinking that financial democratization hasn't gone far enough. But what's the best way to get people thinking about interest rates and inflation the way they think about, say, calories or the price of gas? Would a consumer financial protection agency promote this or instead give people a false sense of security?

Like those who've argued that Iraq and Afghanistan aren't ready for political democracy, I do sometimes think we're not ready for a financial one. And given the results above, it's hard to see -- the views of business economists notwithstanding -- how an FDA for financial products wouldn't be in the best interest of those who lack the proper tools to make sound financial decisions.

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