Financial Literacy on Wealth: Nonlinearity and Inadequate Measurement

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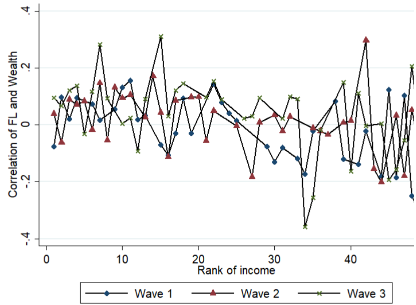
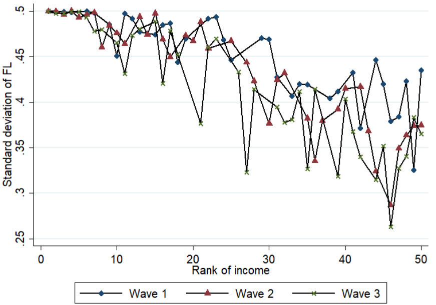
Motivation

Figure: Stylized Facts: Financial Literacy

(a) Correlation of Financial Literacy and Wealth



(b) Standard Deviation of Financial Literacy



Research Question

- Is the effect of Financial Literacy on wealth nonlinear?
- Is the current indicator for Financial Literacy adequate in light of this nonlinear nature?

Approach

- Data: Three waves (2010-2011, 2013-2014, and 2017) of Bundesbank Panel on Household Finances (PHF)
- Step I: Estimate ATE using Pooled OLS, estimate NLE using Unconditional Quantile Regression using the currently used Financial Literacy indicator
- Step II: Consider new Financial Literacy indicator with additional question and reestimate

Results

Figure: Unconditional Quantile Regression of Financial Literacy on Wealth: New Financial Literacy indicator