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Analyzing the Impact of Financial Literacy on Financial Well-Being

MONDAY, May 7, 2018, at 10:00 AM
Jones 304, 5747 S. Ellis Avenue

ABSTRACT

Consumer Financial Protection Bureau (CFPB) aims to encourage consumers to have control over their financial lives through improving their financial literacy. CFPB introduced a new financial well-being scale in 2015 to rigorously measure the effect of their financial literacy initiatives. Building on the establishment of the financial well-being scale, CFPB conducted a National Financial Well Being Survey in 2016 that measured participants’ financial well-being in addition to their individual and household characteristics. This paper will implement causal analysis and segmentation techniques to the National Financial Well-Being Survey data to examine the validity of the financial well-being scale and its relationship with financial literacy. Analysis results show significant positive relationship between financial well-being and financial skill/knowledge. In addition, individuals with certain personality traits were more vulnerable to factors that negatively impact financial well-being. Further examination of this paper’s results may have important implications for enhancing the efficacy of CFPB’s financial literacy initiatives.