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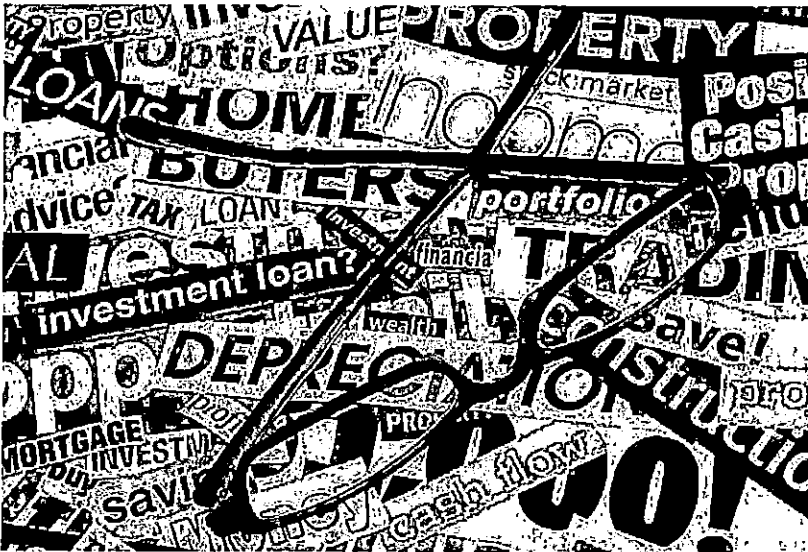
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TOTAL RETURN

A Three-Question Test of Financial Literacy

By KAREN DAMATO

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Are you—or your spouse or your teen or your parents—among the financially illiterate?

For a quick answer, try this three-question quiz that two professors—Olivia S. Mitchell of the University of Pennsylvania's Wharton School and Annamaria Lusardi of the George Washington University School of Business—have been using for years to assess individuals' basic financial savvy.

1. Suppose you had \$100 in a savings account and the interest rate was 2% per year. After five years, how much do you think you would have in the account if you left

the money to grow?

A. More than \$102

B. Exactly \$102

C. Less than \$102

2. Imagine that the interest rate on your savings account was 1% per year and inflation was 2% per year. After one year, how much would you be able to buy with the money in this account?

A. More than today

B. Exactly the same

C. Less than today

3. Please tell me whether this statement is true or false: "Buying a single company's stock usually provides a safer return than a stock mutual fund."

◆ True

◆ False

The correct answers are at the bottom of this post.

In a recent working paper, Ms. Mitchell and Ms. Lusardi review some of the sorry statistics on financial literacy that they and other researchers have come up with over the years—including breakdowns by education, gender, age and nationality. Among the findings:

◆ In a survey of Americans over the age of 50, only half could answer the first two of the above questions correctly. Only one-third got all three right.

◆ Forty-four percent of Americans with a college degree answered all three questions correctly. The figure was 31% for people with some college and 64% for Americans with postgraduate education.

"Even well-educated people are not necessarily savvy about money," the professors write.

◆ In the U.S. and other countries, men are much more likely to get all three correct answers. The figure is 38% for men vs. 23% for women in this country.

But the gender variation has an additional twist, as Ms. Mitchell and Ms. Lusardi explain:

Another striking finding, also consistent across countries, is that men are more confident about their financial knowledge than they should be: even when they were wrong, they reported being 'very confident' about their answers. In contrast, women generally answer fewer of the financial knowledge questions correctly, on average, but they are more likely to admit when they do not know how to answer our questions. This suggests that financial education may be more welcomed by women, should the opportunity arise.

◆ Fifteen-year-olds in the U.S. ranked in the middle of the pack in a more-extensive test of financial literacy given in 18 countries by the Paris-based Organisation for Economic Co-operation and Development. The top performance came from Chinese students, with 15-year-olds in countries including Australia, France and Poland also scoring higher than Americans.

Feeling confident about your responses to the three-question quiz above? You can try your hand at some of the questions from the OECD's Programme for International Student Assessment.

Correct answers:

A.

C.

False

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