The Role of Financial Literacy and Personal Non-Cognitive Attributes in Household Financial Fragility

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Abstract: The financial fragility of households has received increased attention following the recent health crisis, which has created uncertainty and caused increased levels of stress and consequently impaired individual and family well-being. Job losses and/or reduced wages and insecurity increased the number of people that were unable to meet unexpected expenses, which, in many cases, led to increased household debt levels. This presents a threat to the stability of the financial system and the whole economy; therefore, reducing financial fragility and improving financial literacy present challenges for academicians, practitioners, and policymakers. Concerning financial fragility, significant research attention has been devoted to financial knowledge and financial literacy. However, apart from specific knowledge, personal characteristics are of great importance in making financial decisions in the household. Self-efficacy is one of the personal non-cognitive attributes that is a valuable framework for understanding how household financial decisions are made. Thus, this research proposes that individual levels of financial literacy and self-efficacy are related to the indebtedness and financial instability of the household. The primary data were collected using a structured, self-administered online questionnaire, and a snowball sampling method was applied to reach the participants. Preliminary results confirm our assumptions on the influence of financial literacy and self-efficacy on household financial stability.

Keywords: financial literacy, self-efficacy, household financial fragility, well-being

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