

# Understanding the Financial Literacy Divide: State Variations and their Economic Outcomes in the United States

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## Abstract

Awareness of financial literacy has increased significantly over the past decade and is now regarded as a key component in determining an individual's financial wellbeing as well as a measure of broader economic development. Hence, financial literacy is increasingly recognized as a critical tool for enabling individuals to make informed decisions regarding saving, investing, borrowing, and long-term financial planning. This study examines how financial literacy levels vary across the United States and evaluates the impact of financial literacy on poverty rates. It also explores how economic factors such as employment status, education level, and other variables, along with financial literacy, influence state-level poverty. Utilizing the National Financial Capability Study provided from FINRA 2009-2024 as well as unbalanced panel data, the findings conclude that financial literacy has a consistent negative relationship with poverty level and states with higher levels of financial literacy exhibit optimized economic outcomes. Fixed effects models are used to account for spatial and temporal variations. To check the robustness, this research also considers income inequality and tests the impact of financial literacy on income inequality. The

results remain consistent and robust across alternative model specifications. Additionally, these findings offer policy-relevant insights for economists and policymakers seeking to implement targeted financial capability and education programs that promote economic mobility and reduce poverty at the state level. Overall, the study highlights the importance of incorporating financial literacy education at the school level into broader economic policy frameworks.

Keywords: Financial Literacy, Poverty, State-Level Analysis, Panel Data

JEL Classification: G53, D14, I32, R12, C23

## Introduction

Awareness of financial knowledge is rising among economists and financial analysts as financial literacy is being acknowledged as a crucial factor influencing local and national economic development as well as individual financial well-being (Damayanti *et al.*, 2018). As financial systems continue to evolve to become more complex worldwide it is more crucial than ever that individuals have the abilities needed to make informed financial decisions. The most efficient way to achieve this is to have a strong foundation in managing one's money and assets through informed decision making and understanding of critical systems (OECD, 2014). Financial literacy is defined as the ability to understand financial risks and concepts in order to make informed and efficient decisions about finances to improve financial wellbeing (OECD, 2014). Individuals with high financial literacy can make educated decisions about managing their budget, building credit, making investments, and putting money towards retirement (Lusardi and Messy, 2023), all of which are skills needed to benefit a household and contribute to an efficient economy. Given its importance, it is essential to examine how financial literacy varies across states and how these differences affect economic outcomes. Hence, the primary research questions are (i) how financial literacy varies among states, (ii) how these variations affect poverty, income inequality, and other economic indicators in states.

Examining poverty in America has become essential to understanding the persistent socioeconomic inequalities that impact millions of Americans and shape the national economic outcomes. Poverty is the lack of or inability to achieve a socially acceptable standard of living (Bellu and Liberati, 2005). Poverty is not just an inconvenience but can be the primary driver determining how an individual moves through life, and in extreme cases individuals who experience persistent poverty are at a higher risk of dying young than individuals who do not experience poverty (Rowley *et al.*, 2021). Understanding the structural factors that contribute to poverty helps policymakers design more efficient and effective interventions to address poverty. Poverty has long term consequences on

workforce participation and intergenerational economic mobility making it a crucial issue for ensuring national economic well-being and stability (Chetty *et al.*, 2014). Expanding access to quality education and stable employment opportunities can play a key role in mitigating these effects and promoting upward mobility. Moreover, regional disparities and systemic barriers further intensify poverty, highlighting the need for targeted policy solutions. Addressing poverty is not only a moral imperative but also an economic necessity as reducing poverty can lead to broader economic growth and increased social cohesion.

The relationship between financial literacy and economic outcomes have been studied extensively. Individuals with higher levels of financial literacy are more likely to be better off financially, save for retirement, manage their debt, and participate in financial systems (Lusardi and Mitchell, 2001), helping them to reduce poverty. These individuals are less likely to be vulnerable to economic shocks and shortcomings as well as be more likely to contribute to the stability of the financial sector (Wang *et al.*, 2022). As a whole, financial literacy has been known to alleviate poverty and increase economic participation (OECD, 2014) making it crucial for economists to look further into financial literacy and have a concrete understanding of its impacts. Additionally, individuals with low levels of financial literacy face significant financial challenges and consequences such as being more likely to accumulate debt and struggle with savings and investing (Lusardi and Mitchell, 2011). This issue is particularly concerning for young adults who are entering the workforce with no solid foundation of essential financial knowledge (Kasman *et al.* 2018). These gaps in financial literacy contribute to cycles of poverty and economic insecurity, creating a less efficient economy. It's crucial for individuals to develop financial literacy and it's crucial for economists to understand the significant role financial literacy plays in the economy.

Financial literacy plays a crucial role in breaking cycles of poverty as individuals with strong money management skills are far better equipped to budget effectively, avoid predatory lending, and make informed financial decisions that support long-term stability. Research shows that low levels of financial literacy have a strong correlation with significant debt burdens and reduced wealth accumulation, reinforcing an individual's economic hardship (Lusardi and Mitchell, 2014). Improving financial knowledge can serve as an important tool for promoting economic mobility and reducing poverty (OECD, 2014). Beyond simple budgeting, financial literacy empowers individuals to understand credit scores, interest rates, and investment opportunities, all of which have the potential to influence long term financial security. When people can accurately assess financial risks and benefits, they are more likely to build emergency savings, plan for retirement, and pursue educational opportunities that can increase their earning potential.

However, most research is focused on either a broad group or a country, most of the time ignoring variations within the country. Despite the extensive research into financial

literacy in America, there is a lack of geographical balance as most studies do not differentiate between states. It's crucial to differentiate by state because each state can vary in economic structures, educational systems, and access to financial institutions, all of which significantly impact an individual's level of financial literacy (Peng *et al.* 2018). A state with low performing education systems or limited participation in financial systems may result in most individuals having lower levels of financial literacy, resulting in higher levels of poverty (Zhang and Chatterjee, 2023). Additionally, states that prioritize financial education may have higher rates of financial literacy and lower levels of poverty (Lone and Bhat, 2022). Understanding these regional differences is critical for designing effective financial education programs that address local needs. The goal of this study is to address this research gap by analyzing financial literacy levels across states. Ultimately, the findings from this study aim to inform policy makers, economists, and financial institutions about the significance and impacts of financial literacy in each state. It's crucial to recognize that financial literacy is not uniformly distributed across the country and is instead influenced by local and regional factors. By understanding this, policy makers can make targeted interventions to promote financial literacy and reduce poverty.

This study is broken down into four sections. Section 1 (Literature Review) discusses the significance of financial literacy as well as defining the concept and establishing its relationship with poverty and other socio-economic factors. Section 2 (Data, Variables, and Methodology) presents the data sources and methodology used for this research, showcasing a detailed description of how financial literacy is measured across states and how economic variations across states are incorporated into the research. Section 3 (Results and Discussions) provides an analysis of financial literacy variations across states and investigates how these variations impact poverty rates and other economic factors. Finally, section 4 (Conclusion and Policy Implications) discusses the significance of these findings and suggests policy recommendations for improving financial literacy and reducing poverty based on the results.

There are many different methods used to measure financial literacy, specifically through survey statistics. This research utilizes data on financial literacy provided by FINRA which sends out a financial literacy questionnaire once every three years starting in 2009 and going as recently as 2024. In order to be considered financially literate an individual has to correctly answer the majority of questions. The questionnaire updates every cycle and was initially 3 questions long and is currently 7 questions long. In order to ensure accuracy, individuals who do not know the answer to a question are encouraged to answer "I don't know" so that guessing does not skew the results. The questionnaire includes questions on interest knowledge, inflation knowledge, risk knowledge, and overall financial literacy. Data is available for all 50 states as well as the District of Columbia.

## Literature Review

Financial literacy is known to hold a lot of influence on a person's economic and financial standing throughout their life. Financial literacy can be especially critical for a young adult, someone who is at the peak of their economic mobility and learning how to stand on their own financially. The main determinants of financial literacy are an individual's income, age, occupational status, and level of education. As per Morgan and Trinh (2019), both a person's financial literacy and general educational levels are positively related and play a significant role in a person's savings behavior and financial decision making. Financial literacy and knowledge can also have effects on a person's saving and investment efficiency, which is discussed and proven by Mitchell and Lusardi (2015) in their research on the topic. A person with a higher level of financial literacy is more likely to save and invest their money, making their money go further for them in their life. Based on previous research conducted by Lusardi and Messy (2023), there is a significant connection between financial literacy and financial wellbeing where a person with high levels of financial literacy is expected to be in good financial standing.

When an individual has low financial literacy, they may not be able to acknowledge or find the adequate information to make smart decisions with their money. Low financial literacy can make it difficult for a person to open a bank account, manage their mortgage, or invest in new assets. All these factors regarding financial literacy can make it difficult for a person with low financial literacy to accumulate wealth and make informed decisions with their money as proven by Rooij (2011). This is why it's important for researchers to investigate financial literacy and understand the full picture of the significance of financial literacy. Bumcrot (2011) takes a deeper look into this issue, concluding that Americans are not familiar with financial concepts that are needed to form a foundation for financial decision making. If most Americans are not equipped with the needed knowledge they can struggle financially in the long run.

There are a lot of economic factors that financial literacy can play a part in, one of these being poverty. Investments in financial literacy can have the potential to have large wealth payoffs for individuals and the economy as debated by Behrman (2012). It's important to invest in teaching quality financial literacy to young people to ensure a good financial standing when they grow up and have to make their own financial decisions. The behavior of those with high levels of financial literacy have been discussed above, but what about individuals with lower levels of financial literacy? Wang (2022) has conducted research proving that individuals with low levels of financial literacy face the risk of falling into poverty traps and eventually cyclical poverty which can be challenging to escape. Financial literacy can alleviate poverty struggles by promoting the knowledge needed to

not only escape poverty but to participate in market activities, like starting a business or venture, that can generate wealth and prevent future poverty.

Aside from poverty, there are additional characteristics that financial literacy plays a role in. For example, financial literacy has a huge impact on retirement planning, or simply planning in general, showcased in Lusardi and Mitchell's (2011) work which studied America as a whole before comparing it to other countries with developed financial markets. Financial literacy can influence how someone plans for retirement regarding their investments and savings. One of the best things to do for increased retirement planning is to invest in financial literacy and give individuals the resources and knowledge needed to properly plan for their retirement. Financial literacy also impacts someone in their adulthood and the odds of them successfully starting their own business and venture. Starting a business or venture involves taking out loans and individuals with higher levels of financial literacy are more likely to repay their loans in a timely manner and have a lower risk of their venture failing, as proven by Wise (2013). Opening a venture or business can be risky and has the potential to send the individual into financial ruin, however, it also has the potential for significant wealth accumulation, giving an individual and their family protection against poverty and poverty traps. Financial literacy only increases the person's ability to participate in the economy, either through ventures or investments, and increases their chance at success.

Educators have attempted to increase financial literacy through mandated high school courses. The primary issue with this is that a lot of the courses on financial literacy can vary in quality to the point where there are cases where students who received these courses had higher rates of financial literacy, and there have been cases where there was no effect on the students. In one study, students who took the financial literacy course were no more financially literate than students who did not take the course. Students who took the course did not consider themselves more financially literate than students who had not taken the course, which is debated in Mandell and Klein's (2009) work which utilized a nationwide survey of recent high school graduates. While financial literacy is being taught in some schools, it's worth it to question the quality of these teachings. However, there are successful attempts at teaching financial literacy to youths, typically in high school classes. The result is individuals grow up with an improved understanding of finances and personal economic standing. Mancone (2024) takes this research further by studying North Carolina specifically and concludes that it is important to teach people from a young age how to achieve financial security as well as how to understand the need to build financial knowledge through educational initiatives. In America in particular, many individuals are entering adulthood without the necessary financial knowledge and literacy, making them face greater financial challenges than previous generations. As proven in Kasman's (2018) research, providing education and exposure from a young age there are

positive financial outcomes for students later in life. Kasman (2018) studied all 50 states and the District of Columbia through survey data and found that Utah, Missouri, and Tennessee had the strongest financial literacy education policies while the remaining states had significant room for improvement. It's important for educators and policy makers to invest in financial knowledge education to benefit the American youth and make a dent in the significant financial literacy gap in the United States.

So how does all this play into the research at hand? From the picture painted it's clear that financial literacy is crucial to developing an individual in good financial standing. Financial literacy plays a crucial role in a person's ability to make smart financial decisions and plan for their life. Individuals with high financial literacy can properly plan for financial events such as retirements, mortgages, or investments. Financial literacy plays into a location's economy. Studies have been conducted on America as a whole; however, it is worth investigating financial literacy across the country based on states. How does the financial literacy level of the state impact the state's economy and poverty levels? For states with high levels of financial literacy and low levels of poverty, what are these states doing that other states need to take note of. The goal of this research is to give states the information they need to make a dent in the financial literacy gap and help individuals escape poverty.

In conclusion, the body of research surrounding financial literacy consistently highlights the significance of financial literacy and how this can factor into individual financial behavior, economic mobility, and overall financial standing. Higher levels of financial literacy as associated with improved savings, investment participation, and planning for the future. Meanwhile, low financial literacy contributes to poverty and economic instability. Examining financial literacy at the state level can provide important insights for policymakers and educators seeking to reduce economic disparities and strengthen financial outcomes across populations.

Financial literacy influences a person's behavior in a financial world and gives them the necessary skills to make informed decisions about their money. States that exhibit higher levels of financial literacy will likely experience better socioeconomic outcomes than states that do not have high levels of financial literacy. This study will test the following hypothesis regarding the effect of financial literacy on poverty levels.

***Hypothesis 1:*** *There will be a strong negative correlation between financial literacy and poverty on the state level.*

Poverty is not the only dependent variable that is studied in this research. This research explores the relationship between financial literacy and income inequality through the Gini coefficient to test if higher levels of financial literacy translate to lower levels of income

inequality. The following hypothesis regarding the interaction of income inequality and financial literacy is tested.

**Hypothesis 2:** *States with higher levels of financial literacy will have lower levels of income inequality and more optimized socioeconomic outcomes.*

## Data, Variables, and Methodology

### Data and Variables

The primary resource of data is FINRA Investor Education Foundation's National Financial Capability Study (NFCS). Conducted every three years since 2009, this survey assesses an individual's financial literacy, behaviors, and access to financial institutions. Each wave of the survey includes a representative sample of over 25,000 adults across all 50 states as well as the District of Columbia (FINRA, 2009-2024). While the NFCS is used to acquire data on financial literacy, data on additional economic indicators, such as poverty, are obtained from the U.S. Census Bureau's American Community Survey (ACS). The ACS collects annual estimates on the percentage of individuals living below the official federal poverty threshold.

Financial literacy has become prominent in research in the past few decades; however, financial literacy has not been measured on a consistent scale (Urban & Valves, 2022). Despite variations in methodology, most surveys assess core concepts such as interest, inflation, and investment to evaluate literacy levels. If an individual does not know the answer to a question they are told to simply answer with “*I don't know*” so as to not skew the results if they guess. The availability of this data has resulted in multiple studies being published about how gender can play into financial literacy, specifically how women tend to score lower in financial literacy and this gap is more pronounced in developed countries (Cupak *et al.* 2018). Based on the available data for financial literacy it has been concluded that the main determinants of an individual's financial literacy level is their educational level, income, age, gender, and occupation (Morgan and Trinh, 2019).

To be considered financially literate in the NFCS respondents need to correctly answer at least 5 of the 7 questions. Although these questions are closely aligned with the more commonly used “Big Five” financial literacy questions proposed by economists Lusardi and Mitchell (Lusardi and Mitchell, 2011), the FINRA dataset is ideal for this study as it provides comprehensive state level data across 6 different time periods (2009, 2012, 2015, 2018, 2021, and 2024).

**Table 1. Descriptive Statistics**

Variable	Obs.	Description	Mean/Percentage
<b>Financial Knowledge</b>			
Financial Literacy	306	Percent deemed financially literate	36.30
Interest Knowledge	306	Percent who accurately answer interest question	74.50
Inflation Knowledge	306	Percent who accurately answer inflation question	59.90
<b>Economic Identifier</b>			
Poverty	306	Percent of people living below the poverty line	13.4
Income Inequality	306	Gini coefficient	0.463
<b>Financial Variables</b>			
Emergency Funds	306	Percent who have access to emergency funds for 3 months of expenses	44.3
Bankruptcy Filings	255	Adults who filed for bankruptcy in thousands	17.42
Financial Strain	255	Percent who said it wasn't difficult to cover expenses and pay all bills	67.1
<b>Economic Indicator</b>			
State GDP	306	State GDP in thousands	413.72
Unemployment	306	Percent of unemployed adults in the work force	5.5
Population	306	Population in thousands	6333.47
Minimum Wage	306	Minimum wage set by the state	8.49
Household Income	306	Median household income in thousands	76.40
Homeownership Rate	306	Percent of adults who own their home	67.2
<b>Socioeconomic Variables</b>			
<b>Education</b>			
High School Diploma	306	Adults who have completed at least a high school diploma	89.2
Bachelor's degree	306	Adults who have completed at least a bachelor's degree	31.6
Graduates Degree	306	Adults who have completed at least a graduate's degree	12.1
<b>Race</b>			
White	306	Percent of the population that is white	68.7
Non-White	306	Percent of the population that is non-white	42.4

Poverty is measured using the Official Poverty Measure (OPM), provided by the U.S. Census Bureau. The OPM compares a household's income before taxes to a set of income thresholds that vary by family size and composition. A household is living in poverty if the total income falls below the relevant threshold. For each state, the poverty rate represents the percentage of individuals living in households below the poverty line for the given year. This measure provides comparability across time; however, it must be noted that the OPM

does not account for non-cash benefits and individuals in non-traditional home settings which may slightly understate poverty in certain areas (OPM).

Additional independent variables presented in this research are unemployment rates and median average household income. Unemployment is measured through the Census Bureau and the Bureau of Labor Statistics. In order to be considered in unemployment rates an individual must meet specific requirements; they have to have been jobless and actively looking for work within the past 4 weeks and they must be available to work (U.S. Census Bureau, 2022). Household income is collected through the U.S. Census Bureau who collects data through the American Community Survey and the Current Population Survey. These surveys gather data on the household's income before taxes.

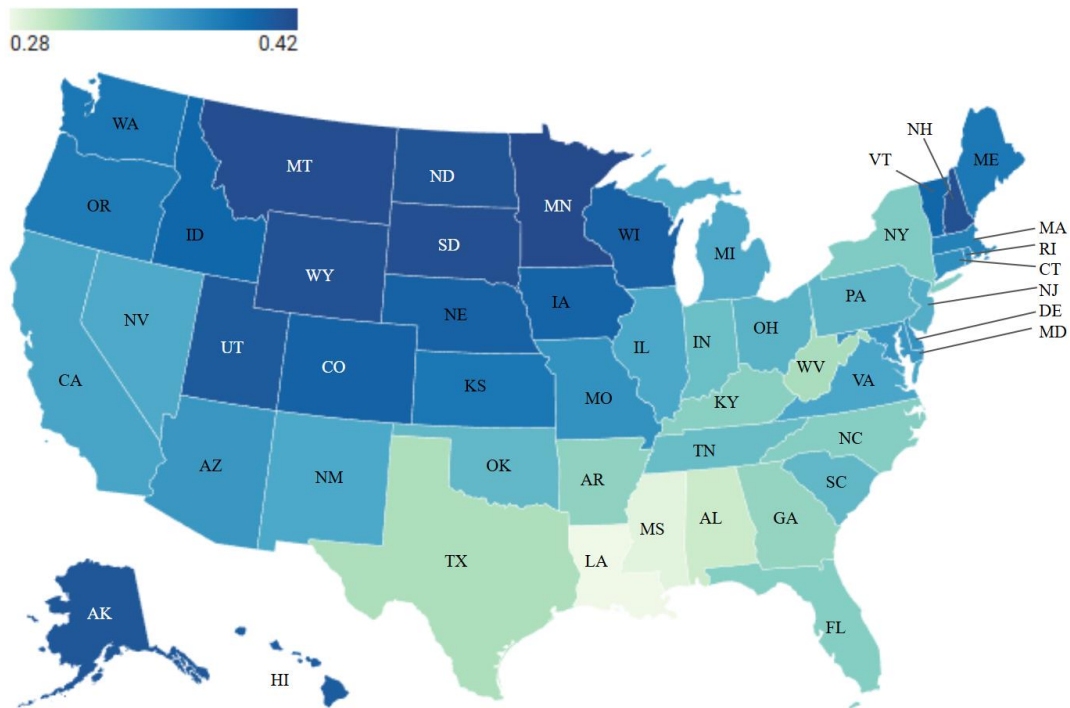
The descriptive statistics in Table 1 highlight the variations between states in terms of financial literacy and economic well-being. Financial literacy is relatively low with an average of 36.30% for all states during the studied six years (FINRA, 2024). While most adults cannot correctly answer 5 of the 7 questions, knowledge about interest is notably high with a 74.50% average (FINRA, 2024). Like interest, inflation knowledge consistently scores higher than overall financial literacy, sitting at a 59.90% average (FINRA, 2024).

There are considerable economic variations across states. Poverty has a significant range between 7.2% and 24.2% creating a 13.40% average. These variations among poverty highlight uneven economic hardship across the country. The same can be said for median household income which averages at \$76,400 but has a \$65,000 gap between minimum and maximum. Unemployment rates share a similar pattern as some states experience stable labor market conditions while others face rates more than double the national average. These economic variations bring to attention the different financial environments households make financial decisions in.

By using indicators of financial stability, such as homeownership and access to emergency funds, we can see a clear picture of uneven economic distribution. Homeownership is measured by whether households own their home or rent and this variable is relatively high on average at 67.22%. This high average indicates that most Americans are financially stable enough to own their own home. While the average is high it ranges significantly from under 40% to nearly 80%. Access to emergency funds is far more limited with only 44.33% of individuals having access to three months of expenses suggesting significant financial vulnerability. The Gini coefficient, which is used to measure income inequality, is the most consistent across all states. While the Gini coefficient is higher than ideal it has been consistent across the country. On the other hand, bankruptcy filings show extreme variability suggesting that financial instability and distress is concentrated in certain regions as opposed to being evenly distributed across the country.

Figure 1 depicts the average financial literacy rates across the United States for the years 2009, 2012, 2015, 2018, 2021, and 2024 showing a range from 28% of adults being

deemed financially literate to 48% of adults being deemed financially literate. Darker shades of blue are used to represent higher levels of financial literacy while lighter shades of green represent lower levels of literacy. Highlighted in this map is the spatial distribution of literacy across regional patterns within the country.



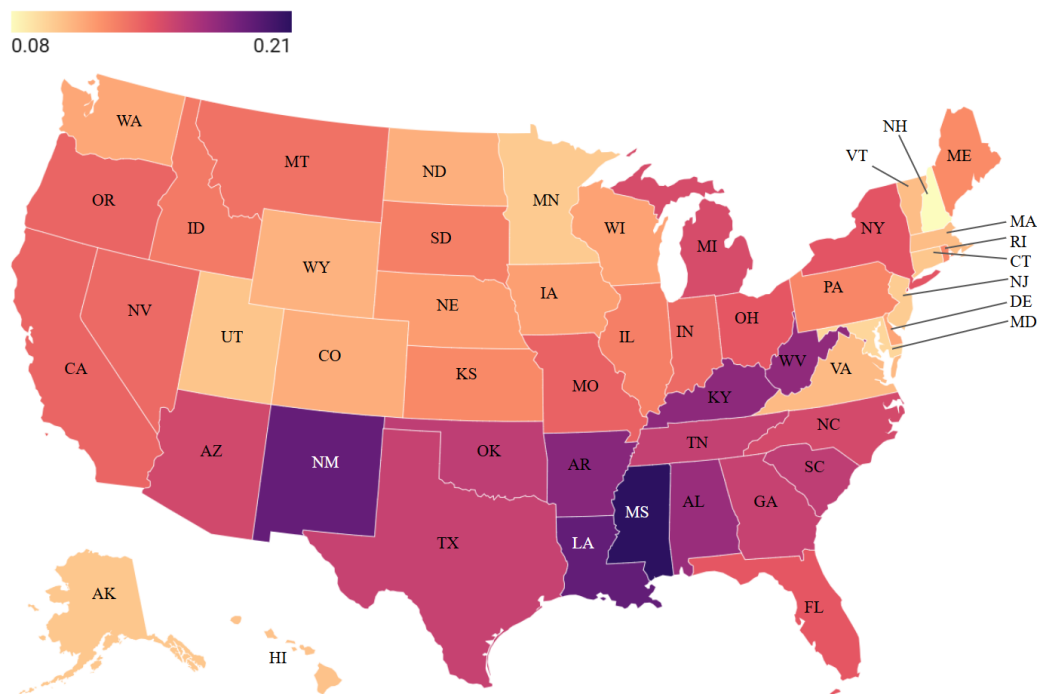
**Figure 1.** Map of Average Financial Literacy Rates

Notably there is a high concentration of financial literacy in the northern region of the United States. States such as Montana, Wyoming, South Dakota, and Minnesota appear in the darkest shades indicating some of the highest financial literacy rates in the country. These states are also located geographically near one another suggesting that the northern region consistently performs well in financial knowledge and decision making. In contrast to these darker regions, the southeastern region shows significantly lower levels of financial literacy. States such as Mississippi, Louisiana, and Alabama appear the lightest on the map. These states are also located next to each other and are surrounded by other poor performing states.

Long term structural factors that vary from state to state are likely a driving force for financial literacy variations throughout the country. Factors such as education systems, income levels, and access to financial institutions vary significantly across the country and

can be used to explain the variations across the map. The patterns presented in figure 1 suggest that while financial literacy varies by state, geographical and socioeconomic factors play a crucial role in shaping financial knowledge across the country.

Figure 2 illustrates the average poverty rate across the United States for the years 2009, 2012, 2015, 2018, 2021, and 2024 with averages ranging from 8% to 21%. The lighter shades of orange and yellow represent lower levels of poverty while shades of pink and purple represent higher levels of poverty. The distribution of poverty across the country reveals distinct regional patterns and geographic disparities.



**Figure 2.** Map of Average Poverty Rates

There is a significant concentration of higher poverty rates in the southern United States with states such as Mississippi, Louisiana, and Alabama appearing in darker shades highlighting high levels of average poverty levels. This clustering of high poverty shows the persistent economic challenges faced by many communities in the country’s southeastern region. In contrast to the southeast, the midwestern region of the country displays significantly lower poverty rates. Specifically, states such as Minnesota, Nebraska, and the Dakotas appear in lighter shades suggesting relatively stronger economic conditions and lower proportions of residents living below the poverty line.



## Econometric Model

Utilizing a sample of fifty-one states and six time periods, this study tests the relationship between financial literacy and two key socioeconomic outcomes: poverty and income inequality. To study this relationship, two fixed effects models with state level observations are used. Equation 1 studies poverty and is as follows:

$$Poverty_{it} = \beta_0 + \beta_1 Financial\ Literacy_{it} + X'_{it} \beta_2 + \eta_i + \delta_t + u_{it} \quad (1)$$

Here, *Poverty* is the dependent variable and represents the poverty rate for a certain state, *i*, at a certain time period, *t*. Financial literacy is represented by *Financial Literacy* and depicts the financial literacy score. Variable *X* contains the socioeconomic factors that are being studied which can be seen in table 1. Finally,  $\eta_i$  and  $\delta_t$  control for time and specific fixed effects while  $u_{it}$  captures the error term. Equation 1 is a fixed effects model used to depict the relationship between poverty and financial literacy.

$$Gini_{it} = \gamma_0 + \gamma_1 Financial\ Literacy_{it} + X'_{it} \gamma_2 + \eta_i + \delta_t + v_{it} \quad (2)$$

Alongside poverty, income inequality is also studied in this research. Income inequality will be studied through the Gini coefficient which is represented by *Gini* in equation 2. The variables in equation 2 are consistent with that in equation 1 allowing for consistent comparison of how financial literacy and other variables relate to both poverty and income inequality.

## Results and Discussion

The data set used in this research includes repeated observations for each state over multiple time periods indicating that this research will be using panel data. Panel data allows this research to observe variations between states and within states in regard to financial literacy and economic outcomes. By utilizing this approach, the results of this study provide a more comprehensive understanding of how changes in financial literacy are associated with changes in poverty levels over time as compared to using a purely cross-sectional approach.

Data on financial literacy is available for all 50 states as well as the District of Columbia meaning that between 51 states and a 6-year time this dataset has 306 observations. Each observation pairs the percentage of adults classified as having high levels of financial literacy with the state's economic outcomes for that year. Within the following model's financial literacy will be broken down into interest knowledge and inflation knowledge to

determine which aspects of financial literacy have the greatest impact on poverty and economic outcomes. To test for robustness in the model, the Gini coefficient will be used to study the impact of financial literacy on income inequality.

Table 2 shows the result of pooled regression using poverty as a dependent variable. As seen in table 2, financial literacy is significantly associated with improved economic outcomes. Models 1 and 2 use financial literacy while models 3 and 4 break down financial literacy and look into interest knowledge and inflation knowledge to get more specific and accurate results. When FINRA collects data on financial literacy the questionnaire is broken down into topic specific questions such as interest knowledge and inflation knowledge (FINRA, 2009-2024). By examining the two variables outside of financial literacy we can see which knowledge is most influential on poverty. Models 1, 3, and 4 show that overall financial literacy measures carry a negative and highly significant coefficient, indicating that higher levels of financial literacy are linked to lower levels of poverty. These results align with Duc Lang *et al.* (2024) where it was found that financial literacy has a significant negative effect on falling into poverty in 113 countries.

State GDP has a positive and statistically significant association with poverty across all four models within table 2, implying that stronger state economies are linked to improved outcomes. The model's implications of state GDP align with research done by Balasubramanian *et al.* (2023) where it was concluded that a ten percent increase in GDP leads to a 4-5% decrease in poverty. Increases in GDP indicate a stronger economy with greater amount or greater value of goods and services being produced, hence translating into lower levels of poverty. This relationship highlights that economic growth at the state level plays an important role in decreasing poverty by expanding employment opportunities and increasing income levels.

In contrast to state GDP, unemployment does not appear to be statistically significant, suggesting that unemployment may have less influence on poverty. The homeownership rate is negatively correlated with poverty and highly significant across all models indicating that higher rates of homeownership are strongly associated with improved financial conditions. Homeownerships relationship with poverty is studied by Rostad *et al.* (2019) in which it was determined that when parents own homes their children experience upward economic mobility and are significantly less likely to be in poverty than individuals who grew up with parents who did not own their home. Factors that do not show consistent statistical significance are minimum wage and state population, implying that their effects may be limited in these models.

Demographic variables and education attainment highlight structural influences on poverty. Higher levels of educational attainment, such as bachelor's degrees and graduate degrees, are strongly significant across all models with graduate education showing the largest positive effect. High school education has a significant relationship as well but is

smaller in comparison to bachelor's and graduate degrees. Educational attainment plays a significant role in poverty reduction, and this has been studied in an abundance of literature, particularly by Spada *et al.* (2023) who specifically concluded that increases in educational attainment leads to significant poverty reduction across all countries studied. The white variable indicates the white population in a state. Throughout the models the white variable is positive but holds weak significance, indicating that there are potential demographic disparities in poverty. Throughout all models the R-squared values are high, suggesting that these models explain a large portion of the variations in poverty, reinforcing the conclusion that financial literacy plays an important role in happening economic outcomes at the state level.

**Table 2.** Panel Data Model: Finance Literacy and Poverty

Variable	Pooled Model			
	Model 1	Model 2	Model 3	Model 4
Financial Literacy	-0.109*** (0.028)	-0.110*** (0.020)		
Interest Knowledge			-0.101*** (0.038)	-0.108*** (0.030)
Inflation Knowledge			-0.038 (0.034)	-0.033 (0.026)
Emergency Funds	-0.065** (0.027)		-0.070** (0.028)	
Bankruptcy Filing	-0.005*** (0.001)		-0.005*** (0.001)	
Financial Strain	0.00008 (0.0003)		0.0001 (0.0003)	
State GDP	-0.011** (0.004)	-0.007** (0.002)	-0.011*** (0.004)	-0.007** (0.003)
Unemployment	-0.033 (0.075)	0.067 (0.066)	-0.082 (0.073)	0.007 (0.064)
State Population	0.014*** (0.004)	0.003 (0.003)	0.014*** (0.004)	0.002 (0.003)
Minimum Wage	0.00001 (0.0008)	-0.00009 (0.0005)	0.00003 (0.0008)	0.0001 (0.0005)
Homeownership Rate	-0.0103*** (0.027)	-0.087*** (0.024)	-0.107*** (0.027)	-0.080*** (0.024)
Edu. High School	-0.381*** (0.073)	-0.434*** (0.059)	-0.388*** (0.072)	-0.448*** (0.060)
Edu. Bachelor's	-0.502*** (0.074)	-0.431*** (0.053)	-0.526*** (0.072)	-0.437*** (0.053)
Edu. Graduate	0.635*** (0.103)	0.517*** (0.072)	0.662*** (0.102)	0.522*** (0.074)
White	0.010 (0.010)	0.016* (0.008)	0.010 (0.009)	0.017* (0.008)
Observations	255	306	255	306
R-Squared	0.7251	0.7166	0.7297	0.7141
Number of States	51	51	51	51

**Note:** Standard errors in parentheses. \*\*\*Significant at the 1% level, \*\*Significant at the 5% level, \*Significant at the 10% level.

Table 3 presents the results of a random effects model and a fixed effect model using poverty as the dependent variable and throughout the models it becomes evident that financial literacy is an important factor when predicting poverty outcomes. In the random

effects models, financial literacy is consistently negative and is statistically significant, indicating that higher levels of financial literacy are associated with lower levels of poverty. When financial literacy is broken down into interest knowledge and inflation knowledge, variables such as emergency funds show significance, although the effects are not consistent. Financial strain is positive and highly significant across all models, indicating that high levels of financial stress is strongly associated with higher levels of poverty. As per the Hausman test the fixed effects model is preferred as it holds the most significance.

**Table 3.** Finance Literacy and Poverty: Fixed and Random Effect Model

Variable	Fixed Effect				Random Effect			
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
Financial Literacy	-0.002 (0.024)	-0.0258 (0.020)			-0.056*** (0.021)	-0.068*** (0.017)		
Interest Knowledge			-0.057** (0.024)	-0.040* (0.021)			- 0.070*** (0.025)	-0.062*** (0.021)
Inflation Knowledge			0.006 (0.023)	-0.020 (0.017)			-0.027 (0.023)	-0.044*** (0.017)
Emergency Funds	0.039* (0.022)		0.055** (0.022)		0.036* (0.020)		0.039* (0.021)	
Bankruptcy Filing	0.001 (0.003)		0.003 (0.003)		-0.003 (0.002)		-0.002 (0.002)	
Financial Strain	0.00008 (0.0001)		0.0001 (0.0001)		0.00008 (0.0002)		0.0001 (0.0001)	
State GDP	-0.003 (0.003)	-0.007*** (0.002)	-0.003 (0.003)	-0.007** (0.002)	-0.006** (0.003)	-0.004** (0.002)	(0.0001) -0.006** (0.003)	-0.004* (0.002)
Unemployment	0.314*** (0.056)	0.249*** (0.051)	0.298*** (0.055)	0.245*** (0.051)	0.196*** (0.057)	0.163*** (0.049)	0.172*** (0.003)	0.153*** (0.049)
State Population	-0.095*** (0.029)	-0.003 (0.003)	- 0.098*** (0.003)	-0.003 (0.003)	0.008* (0.004)	0.0003 (0.002)	0.007 (0.007)	-0.0003 (0.002)
Minimum Wage	-0.001 (0.0007)	0.0004 (0.0004)	(0.029) -0.0009 (0.0007)	0.0005 (0.0004)	-0.0003 (0.0007)	0.0004 (0.0004)	(0.004) -0.0004 (0.0007)	0.0005 (0.0004)
Homeownership	-0.241*** (0.040)	-0.231*** (0.036)	- (0.0007)	-0.240*** (0.036)	-0.149*** (0.033)	-0.170*** (0.030)	- (0.0007)	-0.172*** (0.030)
Edu. High School	-0.008 (0.111)	-0.049 (0.089)	0.260*** (0.040)	-0.077 (0.089)	-0.184** (0.088)	-0.236*** (0.072)	0.162*** (0.032)	-0.259*** (0.071)
Edu. Bachelor's	-0.458*** (0.135)	-0.231*** (0.066)	-0.064 (0.113)	-0.232*** (0.063)	-0.657*** (0.093)	-0.320*** (0.053)	- 0.0222** (0.087)	-0.0299*** (0.053)
Edu. Graduate	0.527** (0.214)	0.047 (0.067)	- 0.493*** (0.066)	0.040 (0.066)	0.721*** (0.137)	0.183*** (0.064)	- (0.087)	0.160** (0.064)
White	-0.221*** (0.072)	-0.035 (0.030)	(0.134) 0.560*** (0.212)	-0.021 (0.031)	0.006 (0.017)	-0.002 (0.015)	0.665*** (0.091) 0.724*** (0.134)	0.006 (0.015)
Observations	255	306	255	306	255	306	255	306
R-Squared	0.0011	0.3456	0.0021	0.3938	0.6763	0.6394	0.6837	0.6439
Number of States	51	51	51	51	51	51	51	51
Hausman Test	47.6***	201.24***	44.6***	74.69***				

**Note:** Standard errors in parentheses. \*\*\*Significant at the 1% level, \*\*Significant at the 5% level, \*Significant at the 10% level.

State level macroeconomic variables play a significant role in these models. In the random effect model, state GDP has a positive association with poverty and is statistically significant, reflecting underlying structural differences across states rather than a direct correlation. Unemployment within states shows mixed and insignificant results in these models while homeownership is negative and highly significant, suggesting that high levels of homeownership is strongly associated with lower levels of poverty. State population and minimum wage are consistently insignificant implying that their effect on poverty may be absorbed by other controls.

Education variables exhibit strong and consistent relationships with poverty across nearly all models. These results are in line with Scherer & King (2025) where it is concluded that individuals with at least a high school diploma earned more on average than individuals who did not complete high school, this earning gap increasing significantly when considering individuals with higher education. These increases in income caused by educational attainment translate into lower chances of experiencing poverty. While education attainment provides some protection against poverty, significant reductions are driven by additional factors like human capital accumulation. The larger coefficients on bachelor's and graduate education imply that advanced education and certifications are strongly linked to higher paying employment opportunities, reducing poverty in the long run. The effect of high school education reflects a smaller, but still significant impact on poverty. The education results in table 3 emphasize that policies aimed at increasing access to education and improving college attendance may have a significant impact on poverty reduction.

Finally, differences in table 3 highlight the importance of model selection in interpreting these results. The random effects models have higher R-squared values highlighting a strong explanatory power when both cross sectional and time variation are considered. In contrast to this, the fixed effects models report lower R-squared values, reflecting the difficulty of explaining within state variation in poverty over time. Despite the differences between models, the overall findings remain consistent in that financial literacy, education, and structural economic factors are key determinants of poverty. Based on these models, it can be concluded that improving financial knowledge and capability can contribute to poverty reduction in the long run.

The pooled regression results presented in table 4 indicate that several factors of financial literacy and economic conditions are significantly associated with variations in the Gini coefficient. The Gini coefficient is a statistical measure of economic inequality where a value of 0 represents perfect equality and 1 represents perfect inequality. In, financial literacy shows a negative and statistically significant relationship with inequality indicating that higher levels of financial literacy are associated with more equal income distributions. Breaking down financial literacy into interest knowledge and inflation

knowledge reveals that interest and inflation have differing effects on the Gini coefficient, with interest knowledge reducing inequality while inflation knowledge is associated with slightly higher inequality.

Variables such as emergency funds, bankruptcy filings, and financial strain are incorporated into the models to show how financial literacy remains stable, suggesting that the effect of financial literacy on inequality is not being captured through these outcomes. The consistency throughout the models indicate that financial literacy likely acts as an independent influence on income inequality through improved financial decision making and increased access to wealth building opportunities. This is discussed by Beckker *et al.* (2025) as higher levels of financial literacy leads to increased income and saving impacting a person's overall financial wellbeing. At the same time, the significance of variables like financial strain and bankruptcy filings highlight that short term financial vulnerability plays an important role in shaping inequality. The layered relationship between variables presented in table 4 underscores how financial capability and financial stability are important channels in which income inequality is affected, reinforcing the need to consider multiple approaches of individual financial well-being when looking into income distribution.

Across all models presented in table 4, several control variables display strong and consistent relationships with the Gini coefficient. Homeownership rates are negative and highly significant indicating that higher rates of homeownership is associated with lower inequality, reflecting wealth stabilization. Educational attainment also plays a key role as higher shares of individuals with bachelor's and graduate degrees are positively associated with inequality. Meanwhile, high school attainment tends to reduce inequality suggesting that advanced education may widen income dispersion. Educational attainment has a significant impact on poverty reduction as discussed by Doucouliagos & Manning (2015) in which educational attainment reduces the income share of top earners while increasing the share of bottom earners and education has been particularly effective in reducing inequality. Looking into race, the white population is positive and significant indicating that higher inequality coincides with higher white populations. The macroeconomic controls such as unemployment and minimum wage are insignificant while state GDP tends to show weak negative effects. Overall, the models in table 4 explain a substantial portion of the variation in economic inequality and the consistency of key coefficients across specifications reinforce the robustness of the relationship between financial literacy, demographic structure, and income inequality.

**Table 4.** Panel Data Model: Finance Literacy and Gini Coefficient

<b>Pooled Regression Results</b>				
<b>Variable</b>	<b>Model 1</b>	<b>Model 2</b>	<b>Model 3</b>	<b>Model 4</b>
Financial Literacy	-0.103*** (0.018)	-0.097*** (0.0144)		
Interest Knowledge			-0.037 (0.025)	-0.036* (0.020)
Inflation Knowledge			-0.069*** (0.022)	-0.104*** (0.017)
Emergency Funds	0.055*** (0.018)		0.045** (0.018)	
Bankruptcy Filing	-0.003*** (0.001)		-0.003*** (0.001)	
Financial Strain	-0.001 (0.002)		0.00005 (0.0002)	
State GDP	0.003 (0.002)	0.005** (0.002)	0.003 (0.002)	0.005** (0.002)
Unemployment	-0.081* (0.048)	-0.145*** (0.046)	-0.116** (0.048)	-0.139*** (0.043)
State Population	0.002 (0.003)	-0.002 (0.002)	0.003 (0.003)	-0.003 (0.002)
Minimum Wage	-0.0008 (0.0005)	0.0008 (0.0003)	-0.0007 (0.0005)	0.0003 (0.0003)
Homeownership Rate	-0.078*** (0.017)	-0.082*** (0.016)	-0.078*** (0.017)	-0.074*** (0.016)
Edu. High School	-0.366*** (0.047)	-0.342*** (0.041)	-0.373*** (0.047)	-0.324*** (0.040)
Edu. Bachelor's	-0.125*** (0.047)	-0.081** (0.037)	-0.147*** (0.047)	-0.068* (0.036)
Edu. Graduate	0.423*** (0.066)	0.351*** (0.050)	0.449*** (0.067)	0.314*** (0.050)
White	0.028*** (0.006)	0.022*** (0.006)	0.027*** (0.006)	0.022*** (0.006)
Observations	255	306	255	306
R-Squared	0.7649	0.7092	0.762	0.7267
Number of States	51	51	51	51

**Note:** Standard errors in parentheses. \*\*\*Significant at the 1% level, \*\*Significant at the 5% level, \*Significant at the 10% level.

Table 5 presents the results of the random effect model and fixed effect model using Gini coefficient as a dependent variable. The results in the random effect model reveal a consistent and statistically significant relationship between financial literacy and income

inequality. In table 5 financial literacy is negatively associated with inequality suggesting that higher levels of financial literacy correspond to more equal income distributions across states. When breaking down financial literacy into interest and inflation knowledge, interest knowledge has a strong negative effect on Gini coefficient while inflation knowledge is positively and significantly related to inequality, suggesting heterogeneous effects across financial literacy components. Access to emergency funds is positively associated with inequality in the random effects specifications, mirroring the pooled results and potentially reflecting structural differences across wealthier states. Financial strain is consistently negative across models and is highlighting significantly indicating that broader financial hardship is linked to income inequality. The explanatory power of the random effects model is relatively high, indicating that these covariates capture substantial cross state variations.

**Table 5.** Random and Fixed Effect Model Using Gini Coefficient

Variable	Fixed Effect				Random Effect			
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
Financial Literacy	-0.018 (0.018)	-0.009 (0.016)			-0.054*** (0.015)	-0.052*** (0.013)		
Interest Knowledge			0.009 (0.018)	0.010 (0.016)			-0.011 (0.017)	-0.008 (0.015)
Inflation Knowledge			-0.023 (0.018)	-0.065*** (0.013)			-0.050*** (0.016)	-0.087*** (0.013)
Emergency Funds	0.049*** (0.016)		0.043** (0.017)		0.063*** (0.014)		0.057*** (0.014)	
Bankruptcy Filing	-0.004* (0.002)		-0.004* (0.002)		-0.003** (0.001)		-0.003*** (0.001)	
Financial Strain	-0.0002 (0.0001)		-0.0002 (0.0001)		-0.0001 (0.0001)		-0.0001 (0.0001)	
State GDP	-0.0002 (0.002)	-0.002 (0.002)	-0.0003 (0.002)	-0.0009 (0.002)	0.001 (0.002)	0.002 (0.001)	0.0008 (0.002)	0.002 (0.001)
Unemployment	-0.098** (0.042)	-0.192*** (0.041)	-0.096** (0.042)	-0.156*** (0.039)	-0.103*** (0.039)	-0.208*** (0.039)	-0.112*** (0.038)	-0.165*** (0.036)
State Population	-0.001 (0.022)	0.00001 (0.002)	0.0007 (0.022)	-0.0002 (0.002)	0.006** (0.003)	0.0006 (0.001)	0.007** (0.003)	-0.0002 (0.001)
Minimum Wage	-0.0008 (0.0005)	-0.00008 (0.0003)	-0.0009 (0.0005)	0.00004 (0.0003)	-0.0009* (0.0004)	0.00003 (0.0003)	-0.0009** (0.0004)	0.0001 (0.0002)
Homeownership	-0.026 (0.030)	-0.044 (0.029)	-0.028 (0.030)	-0.037 (0.028)	-0.052** (0.022)	-0.070*** (0.022)	-0.058*** (0.022)	-0.061*** (0.021)
Edu. High School	-0.072 (0.082)	-0.070 (0.071)	-0.075 (0.085)	-0.113 (0.069)	-0.272*** (0.059)	-0.272*** (0.053)	-0.282*** (0.060)	-0.267*** (0.051)
Edu. Bachelor's	-0.206** (0.100)	0.051 (0.052)	-0.198* (0.101)	0.052 (0.049)	-0.202*** (0.062)	-0.008 (0.040)	-0.200*** (0.063)	0.021 (0.038)
Edu. Graduate	0.361** (0.159)	0.028 (0.053)	0.354** (0.159)	0.035 (0.051)	0.516*** (0.091)	0.195*** (0.050)	0.506*** (0.092)	0.150*** (0.047)
White	-0.121** (0.054)	-0.070*** (0.024)	-0.120** (0.054)	-0.046* (0.024)	0.009 (0.011)	-0.004 (0.010)	0.010 (0.011)	-0.0004 (0.010)
Observations	255	306	255	306	255	306	255	306
R-Squared	0.2920	0.2950	0.3204	0.4554	0.7460	0.6605	0.7468	0.6894
Number of States	51	51	51	51	51	51	51	51
Hausman Test		85.36***		36.53***	18.67		16.92	

**Note:** Standard errors in parentheses. \*\*\*Significant at the 1% level, \*\*Significant at the 5% level, \*Significant at the 10% level.

One of the most consistent variables in table 5 would be unemployment which is highly significant and negative across all models. These results imply that decreases in unemployment translate to increases in income inequality, which is in line with Castells-Quintana & Royuela (2012) in which high unemployment rates have a negative and

significant effect with increases in inequality. Unemployment levels are often used to symbolize the amount of opportunity and room for growth in a local economy, meaning that higher levels of unemployment indicate an economic crisis with little room for growth in the long run.

In table 5, financial strain continues to exhibit a negative effect with reduced significance in the fixed effects model. Many structural controls lose statistical significance in the fixed effects model, implying that their explanatory power is largely driven by cross state differences rather than within state changes over time. Finally, the R-squared values in the fixed effects model are significantly lower, reinforcing the idea that much of the variation in inequality is cross sectional.

## Conclusion and Policy Implications

Throughout this study, the relationship between financial literacy and socioeconomic outcomes were examined to see the impact that financial literacy has on poverty and income inequality in the United States. Utilizing panel data over a fifteen-year period and applying pooled, fixed effect, and random effect models, the findings of this research consistently identify a strong negative relationship between financial literacy and poverty. Across all model specifications, higher levels of financial literacy are strongly associated with lower levels of poverty. The findings reinforce promoting financial literacy to reduce poverty and improve financial stability and overall economic well-being.

While improved financial literacy is proven to be correlated with reduced levels of poverty, financial literacy does not operate in isolation but rather in conjunction with broader structural and economic factors. Variables such as homeownership rates and educational attainment demonstrate consistent relationships with poverty reduction throughout the models. Additionally, macroeconomic variables such as state GDP show significance with their results reflecting underlying structural variations across states. The mixed and insignificant results for factors such as unemployment, minimum wage, and state population suggest that these factors are mediated by additional variables within the model. Overall, the findings indicate that financial literacy is most effective on poverty reduction when combined with access to education and assets for human capital development.

In addition to studying financial literacy's impact on poverty, income inequality was studied through the Gini coefficient. Within the random effects model's financial literacy is seen to be an important factor to impact income inequality as higher levels of literacy are associated with more equal income distributions. The fixed effects model reveals a complex dynamic between financial literacy and the Gini coefficient, showing that state increases in financial literacy may coincide with rising inequality over time. The mixed

results of the Gini coefficient suggest that financial literacy alone is not sufficient to address income inequality. Through the models presented in table 5 income inequality is dependent on broader economic factors outside of financial literacy.

Overall, this research contributes to the body of literature surrounding financial literacy by highlighting the importance of state and geographic variations. By focusing on state level differences, the analysis provides an understanding of how financial knowledge influences and is correlated with economic outcomes in the United States. The findings underscore that financial literacy is not uniformly distributed across the country and that its impact is shaped by state economic structures, education systems and access to financial resources.

Major policy implications can be made based on the significance of this data. Access to financial education is the primary policy and should be what policy makers focus on moving forward. Given the consistent relationship between financial literacy and poverty reduction, financial education being integrated into the K-12 curriculum will provide individuals with the essential skills and knowledge to enter the financial world. Currently several states do require at least some level of financial literacy to be taught to students, with Utah, Missouri, and Tennessee having the most effective courses. Given the significant variations between states a one size fits all policy approach would not be efficient, and policies should instead be designed based on regional differences and a state's specific needs. For example, states with limited access to banking services will benefit from policies that expand education on personal finance. Policymakers need to design targeted policies that promote affordable housing and increased access to higher education which can increase benefits in financial literacy.

An important limitation to note is that this research depends on survey measures of financial literacy which may not fully capture an individual's true financial knowledge or behavior. While the FINRA dataset is comprehensive, it is based on self-reported responses on a relatively small set of questions oversimplifying the complexity of financial literacy and decision making. Additionally, the changing number and content of survey questions over time may present inconsistencies in how financial literacy is measured. Although the models identify strong correlations between financial literacy and poverty, the results do not establish causality and there may be omitted variables that influence financial literacy and economic outcome. Finally, the random and fixed effects models may not fully capture changes or long term structural shifts within states over time.

In conclusion, there is a significant correlation between financial literacy and poverty levels and financial literacy is a powerful tool for studying economic well-being across states, but its effectiveness depends on the broadened economic environment. While financial literacy alone is not sufficient to explain variations in income inequality throughout the country, there is a significant negative correlation between financial

literacy and poverty rates. States with lower rates of financial literacy consistently exhibit higher rates of poverty. These findings are further explored and solidified through pooled, fixed, and random effects models. A comprehensive policy approach that combines financial education with structural reforms and expanded economic opportunities is essential for achieving meaningful and sustained reductions in poverty.

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# Appendix

**Table 1A.** Poverty and Financial Literacy Regression Results

Poverty	Coefficient	Std. err.	t	P>t	[95% conf. interval]
Financial Literacy	-.0777868	.0262094	-2.97	0.003	-.1293616 -.0262121
_cons	.1628699	.0096947	16.80	0.000	.1437927 .181947

F (1, 304) = 8.81

R-Squared = 0.0282

Adj R-Squared = 0.0250

Table 1A examines the relationship between financial literacy and poverty in detail. The results are statistically significant indicating that financial literacy is a meaningful predictor of poverty. However, the R-squared value is relatively low at only 0.0282 meaning that financial literacy alone can only explain 2.8% of the variations within poverty. Despite this table being statistically significant, the model has limited explanatory power and most of the variations in poverty are caused by additional variables.

The coefficient on financial literacy,  $-.0777868$ , is negative and statistically significant. This implies that higher levels of financial literacy have strong associations with low levels of poverty. Specifically, a one unit increase in financial literacy is associated with a 0.078 decrease in poverty. Because the 95% confidence interval does not include zero, this factor reinforces the statistical significance of the relationship between poverty and financial literacy. Overall, these results suggest that there is a statistically significant inverse relationship between poverty and financial literacy, however, financial literacy can only explain a small portion of poverty variations. This model goes to show the importance of additional economic factors outside of financial literacy.

**Table 2A.** Poverty, Interest Knowledge, and Inflation Knowledge Regression Analysis

Poverty	Coefficient	Std. err.	t	P>t	[95% conf. interval]
Interest Knowledge	-.0296199	.0499514	-0.59	0.554	-.1279181 .0686783
Inflation Knowledge	-.1057863	.04199	-2.52	0.012	-.1884175 -.0231552
_cons	.2200539	.0263552	8.35	0.000	.1681902 .2719176

F (2, 301) = 8.84

R-Squared = 0.0555

Adj R-Squared 0.0492

Table 2A, which can be found in the appendix, reports the results of a regression analysis between poverty, interest knowledge, and inflation knowledge. Inflation knowledge and interest knowledge are two components of financial literacy and were collected from the same survey that measures financial literacy. The model is overall statistically significant indicating the two variables have explanatory power when it comes to poverty. Since the R-squared value is 0.0555 the model can explain about 5.5% of variations in poverty. While this value is small it is larger than financial literacy as a whole which can explain 2.8% of the variations in poverty.

Looking at the two variables individually, inflation knowledge has a negative association with poverty. This finding implies that higher knowledge of inflation is associated with lower levels of poverty. To explain this in detail, a one unit increase in inflation knowledge translates to a 0.106 decrease in poverty. Since there is not a zero in the 95% confidence interval, this further reinforces the statistical significance of this model. Moving from inflation knowledge to interest knowledge, interest knowledge is not statistically significant and includes a zero in the 95% confidence interval. This suggests a clear independent relationship between poverty and interest knowledge.

Overall, the findings in this model suggest that not all elements of financial literacy are equally related to poverty. Even though inflation knowledge appears to be significantly associated with poverty and has a clear negative relationship, interest knowledge does not have a significant effect in this model.