

Financial Satisfaction: Association with Perceived and Actual Financial Knowledge

Nilton Porto, University of Wisconsin – Madison¹

Financial satisfaction is increasingly being used in measuring people's overall happiness. Objective factors such as income and wealth might not tell the whole story when evaluating financial wellbeing. This paper argues that financial knowledge – using both perceived and actual components – can provide better explanatory power when assessing satisfaction in the financial arena. A discussion of analogous empirical inferences from the fields of psychology and medical health is proposed to substantiate findings: patients' subjective and objective knowledge affects their wellbeing in opposed directions. This paper examines the relationship between perceived and actual financial knowledge as factors in a self-reported financial satisfaction item using the national sample (n=1488) of the 2009 FINRA National Financial Capability Study. Proportional odds models are used to discover a positive correlation between perceived knowledge (from a Likert-type survey question) and financial satisfaction. Conversely, actual financial knowledge (from a right/wrong financial literacy quiz) is found to have a negative association with financial satisfaction. These results hold under different model specifications and robustness checks. Furthermore, these two dissociate paths in knowledge can help explain some of the challenges encountered on financial literacy programs & interventions such as low take-up rates and inability to identify treatment effects.

¹Ph.D. Candidate, Consumer Science, School of Human Ecology, UW-Madison, WI. Phone: 608-886-2122. Email: nporto@wisc.edu.