

Efficacy in Measuring Financial Literacy

Melissa J. Wilmarth, University of Alabama¹
Kyoung Tae Kim, University of Alabama²
Tae-Young Pak, Sungkyunkwan University, Korea³

Current financial knowledge survey instruments provide multiple response categories of possible answers along with “don’t know” (DK) and “refused to answer” (RA) options. Educational testing research has shown that a knowledge battery with DK/RA responses invites systematic error associated with the propensity to guess and reduces logical validity in measurement. The purpose of this project is to demonstrate threats and consequences associated with offering DK/RA responses in financial knowledge surveys. Using data collected in Summer 2021 on a battery of financial knowledge questions, including a short-form (7 items) and long-form (14 items) covering areas of debt and credit, insurance, budgeting, taxes, and estate planning. Our results find that financial knowledge may be under-estimated when DK/RA is presented. Including the D⁴K/RA response reduces the validity of the scale but increases the reliability of the scale. A preface to encourage substantive response does not help prevent respondents from choosing DK/RA response options. The inclusion of a preface to encourage selecting a substantive answer has little influence on the summary financial knowledge score. Offering an additional incentive for each correct answer response did not have an impact on the summary financial knowledge scores. Results identify some threats to validity associated with DK/RA responses in financial knowledge surveys. Support that the DK/RA response and incorrect responses are foundationally different. Improving survey protocol may improve the ability to better target financial education efforts but also assess them better. The DK/RA response captures both being uninformed and underlying personality characteristics. Further study is needed to understand the role of DK/RA response options in measuring financial knowledge and how to improve survey protocols.

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¹ Melissa J. Wilmarth (mwilmarth@ches.ua.edu), Associate Professor, Department of Consumer Sciences

² Kyoung Tae Kim (ktkim@ches.ua.edu), Associate Professor, Department of Consumer Sciences

³ Tae-Young Pak (typak@skku.edu), Assistant Professor, Department of Consumer Sciences