

Financial Literacy Basics

Arth Centre of Excellence (ACE)

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Definition of Financial Literacy

Financial literacy is defined as the ability to understand financial concepts and risks. It is also defined as the skill to make effective financial decision under a range of financial contexts. There are three main facets of financial literacy namely financial attitude, behaviour and knowledge.

- Financial attitude: The financial attitude captures how a respondent perceives the value of the money. It reflects his nature of response to anticipated future financial responsibilities.
- Financial behaviour: This measures the financial discipline and behavioural aspects of a respondent. It also captures the habit of seeking financial advice and preference to saving instruments.
- Financial knowledge: This refers to the pedagogic knowledge of finance. It includes the broad conceptual finance questions along with simple numerical assignments.

Source: *"A toolkit to create financial literacy indexes of India"*, Durham University Business School, UK 2017

Components of Financial Literacy

