

Imputation of a financial literacy index: A case study using Japanese survey data

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Abstract

Economists often find that personal financial literacy affects financial decisions, even after controlling for individual educational attainment. However, proxy measures of financial literacy are only available for a limited number of surveys in Japan, and these surveys do not provide a detailed breakdown of household financial assets. In this paper, we impute financial literacy for Japanese household savings surveys, which do provide a detailed breakdown of household financial assets including the cash holdings held by a household but do not provide proxy measures of financial literacy, by matching two data sets, one containing household preference parameters and the other financial literacy. We find that the imputed financial literacy variable tends to take higher values for households with better knowledge of the Deposit Insurance Corporation of Japan. We also find a positive relationship between the level of imputed financial literacy variable and cash holdings, and a negative relationship between the level of imputed financial literacy variable and cash usage.

JEL classification: D14, C81, G11

Keywords: Financial literacy, matching, imputation, cash holdings, cash usage

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