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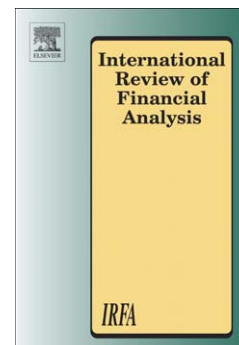
Financial Literacy and Over-Indebtedness in Low-Income Households

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PII: S1057-5219(16)30121-1  
DOI: doi: [10.1016/j.irfa.2016.08.004](https://doi.org/10.1016/j.irfa.2016.08.004)  
Reference: FINANA 1025

To appear in: *International Review of Financial Analysis*

Received date: 10 August 2016  
Accepted date: 22 August 2016



Please cite this article as: French, D. & McKillop, D., Financial Literacy and Over-Indebtedness in Low-Income Households, *International Review of Financial Analysis* (2016), doi: [10.1016/j.irfa.2016.08.004](https://doi.org/10.1016/j.irfa.2016.08.004)

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# Financial Literacy and Over-Indebtedness in Low-Income Households

Declan French and Donal McKillop\*

Financial literacy can explain a significant proportion of wealth inequality. Among the key components of financial literacy are numeracy and money management skills. Our study examines the relative importance of these components in the determination of consumer debt and household net worth among credit union members in socially disadvantaged areas. The main finding from our analysis is that money management skills are important determinants of financial outcomes but that numeracy has almost no role to play. This result adds to a recent US-based behavioural finance literature on the role of attention and planning in consumer finance. Findings are found to be robust when the sample is reduced to only those who have a clear role in household financial decision-making and also when controlling for potential endogeneity. Our findings have policy implications in the UK and elsewhere as credit unions across the world are important players in national financial literacy strategies.

Keywords: Debt, financial literacy, money management

JEL classification: D12 D14 E21

\* Financial support from the Centre of Excellence for Public Health at Queen's University is gratefully acknowledged. The authors would also like to express their gratitude to the management at Cloughfern, Court, Newington, Newry and Ormeau credit unions for their time and patience.

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