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Financial education, investor protection and international portfolio diversification*

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Highlights

- This paper investigates the effect of financial education on foreign portfolio investment.
- We show that higher investor financial education fosters international diversification, and that its role is particularly pronounced in countries where protection of minority shareholders' rights is weaker.
- Information problems and monitoring costs are likely to be more severe in countries with weak minority shareholders' rights.
- We interpret this evidence as supportive of the conjecture that financial education lessens the informational constraints binding foreign investors.

Abstract

This paper investigates the effect of financial education on foreign portfolio investment. We show that higher investor financial education fosters international diversification, and that its role is particularly pronounced where information problems and monitoring costs are likely to be

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