

DETERMINANTS OF PERSONAL ECONOMIC AWARENESS

Introduction. The problem of determining and evaluating economic awareness of various social and demographic groups of the population is of great importance, because studying economic awareness determines the economic behavior of the population. One of the strong assumptions of classical economic theory of perfect competition is the existence of full awareness and information as to market opportunities. The rising complexity and wider range of financial products, the increasing dynamics of new products development, and the growing amount of economic and financial information raise the importance of economic and financial literacy.

The purpose of this study was to examine the differences in personal economic awareness between different groups of population according to their characteristics, and to investigate the determinants of personal economic awareness.

Theoretical framework. In last twenty years, a wide range of studies on economic awareness was conducted. Most of these studies found low levels of economic and especially financial awareness of the population. For example, Jacob et al. (2000) found extremely low literacy in economics, personal finance, and consumer issues among the majority of Americans, especially young people. Chen and Volpe (1998) surveyed 924 college students to examine their personal financial literacy. They found that students gave more correct responses to questions devoted to general knowledge, savings and borrowing, and were less aware about insurance and investment. A survey conducted by the Institute of Certified Financial Planners (1993) in USA showed that poor knowledge of investment fundamentals was the most common problem encountered by their clients, and that financial illiteracy was a major problem when making individual financial decisions. According to a survey of Italian households, 35 percent of potential investors were unaware of stocks and 50 percent unaware of mutual funds (Guiso and Jappelli, 2003). This data indicated a lack of basic economic information and financial awareness.

Total economic awareness commonly includes awareness on everyday economic activity, macroeconomic problems, financial and bank issues. Evel'kin (2002), who examined economic awareness of the wide public in Belarus, considered awareness on

obvious, everyday problems, such as rising prices and the availability of goods in stores, and deeper economic problems such as the state of production, the development of business etc. However, the main determinant of economic awareness is knowledge of financial issues.

There are many studies devoted to finance literacy, in which defining and measuring financial literacy also includes common and daily-used economic issues and terms, which is why it is very difficult to make a precise division between economic and financial literacy. Marriott (2007) measured personal financial awareness and attitude to debt by a questionnaire grouped around four main themes: employment (e.g. minimum wage, tax allowance, income tax rates, and terminology), fees and loans, banking and finance, and general expenditure. The questionnaire included both questions about the meaning of widespread financial indices and current values of these indices. For example, he asked about the description of an asset, definition of a debit card, current exchange rate, meaning of annual percentage rate, meaning of inflation, meaning of the consumer price index, current rate of inflation, meaning of base rate, meaning of liquidity, current base rate per cent, VAT calculation, minimum wage, NIC (National Insurance Contributions) percent rate, meaning of NIC, base for NIC calculation, income tax rate, etc. Thus, the index of financial awareness included many issues of general economic knowledge.

Other scholars considered financial literacy and awareness as knowledge concerning only financial issues. Mason and Wilson (2000) defined financial literacy as the "individual's ability to obtain, understand and evaluate the relevant information necessary to make decisions with an awareness of the likely financial consequences" (p. 31). The concept of financial literacy has recently been renamed to financial capability, but it is still a relatively new concept with no widely accepted definition (Atkinson, 2005). The European Commission defined financial literacy as the capability of consumers to understand retail financial products with a view to making informed financial decisions (EU-Commission, 2005). A similar definition of financial literacy was given by the U.S. Financial Literacy and Education Commission that defined financial literacy as the ability to make informed judgments and to take effective actions regarding the current and future use and management of money. In

other words, financial literacy is the effective use of information in the decision making process (Basu, 2005). Knowledge about markets and investing can be considered a fundamental dimension of personal financial literacy (Braunstein and Welch, 2002).

Lusardi and Mitchell (2006) created a questionnaire for measuring financial literacy. The three questions examined the working of interest rates, the effects of inflation, and the concept of risk diversification. Ford and Kent (2010) also developed three dimensions for measuring financial awareness. The first scale dimension related to familiarity with financial terms such as price-to-earnings ratio and volatility. The second scale reflected understanding of market terms such as the Dow Jones Industrial Average and bearish market behavior. The third scale reflected awareness of current market context by understanding contextual factors such as current price levels and trends of various asset classes. The questionnaire on financial literacy developed by Hilgert and Hogarth (2003) covered cash-flow management, general credit management, saving, investment, mortgages, and a broad category of other financial issues.

A majority of the studies revealed a strong connection between economic knowledge and behavior. According to Guiso and Jappelli (2003), awareness might be of first order importance in determining behavior of potential actors in the financial markets. Basu (2005) also stressed that financial literacy must begin by explaining the need and importance of good financial decisions, that should lead to a set of information that consumers will need to make informed decisions. Without financial literacy, the full and informed participation of individuals in economic life is more difficult (Habschick, Seidl and Evers, 2007). Endsley (1995) wrote about situational awareness of financial markets. He defined it as a state of knowledge that preceded decision making and performance, which involved perceiving critical factors in an environment, understanding their meaning, and projecting what could happen to a system in the near future. For example, debt could be managed better if persons possess adequate personal financial awareness (Marriott, 2007). Individuals need financial literacy in order to cope with the increased complexity of their needs and financial products (Habschick, Seidl and Evers, 2007).

Personal characteristics of various population groups can significantly affect economic awareness. Many studies found significant gender differences in economic and financial awareness. Lusardi and Mitchell (2008) stressed that women displayed a lower level of knowledge than men, particularly with regard to risk diversification. Women generally possessed lower levels of investment knowledge (Chen and Volpe, 1998; Oppenheimer Funds, 1997) and financial market

awareness (Ford and Kent, 2010) compared to their male counterparts. Volpe, Chen, and Pavlicko (1996) also found that male students were more knowledgeable than female students. Danes and Hira (1987) revealed that males knew more about insurance and personal loans, but females knew more about issues covered in the section of overall financial management knowledge.

The life cycle can also have an impact on economic awareness. Guiso and Jappelli (2003) found that awareness was positively affected by demographic variables — birth cohort (age), education, and income. Many studies on youths and adults revealed low scores for economic, financial, and consumer awareness (Chen and Volpe, 1998; Hilgert and Hogarth, 2003). On the contrary, Lusardi and Mitchell (2006) found an alarmingly low level of financial literacy among older individuals in the United States. Chen and Volpe (1998) revealed that students in the lower class ranks, young (under age 30), and with little work experience had lower levels of financial knowledge. Many studies found a quite strong and positive relationship between education and financial awareness (Guiso and Jappelli, 2003; Lusardi and Mitchell, 2007). Others found that low-income consumers, and those with less education, tend to have below-average financial literacy scores (Kotlikoff and Bernheim, 2001; Reifner, 2003). Also, Jacob et al. (2000) found that consumer and financial literacy of low-incomes and immigrants were lower than that of other populations.

Participants from dissimilar ethnic backgrounds have different levels of financial knowledge; foreign students earned lower scores than their American counterparts (Chen and Volpe, 1998). Many recent immigrants face both social and language barriers to using mainstream financial institutions (Jacob et al., 2000). Kohli (2011) also stated that migrant workers had limited understanding of the guest country's language and therefore lacked awareness of features of the labor market. They also lacked awareness of general everyday issues and services. According to Ford and Kent (2010), experience plays a significant role in financial awareness. Thus, immigrants who came from countries of origin where the population traditionally does not participate in the financial market would be less aware than the native population. Hernandez-Coss (2005) mentioned the following reasons that restricted immigrants from participation in formal financial systems: immigrants might tend not to trust formal financial institutions, because of the poor levels of banking penetration in their country of origin and lack of cultural familiarity with them. But migration is a channel for empowerment as it generates experience and creates more awareness (Bhaskaran and Mehta, 2002). Immigrants can benefit from being part of a close-knit migrant community, and

they often learn from each other about financial channels and possibilities (Hernández-Coss, 2005). Economic awareness of immigrants shows the extent to which they have adapted economically to the new conditions in the host country and, hence, influences their economic integration.

Method. *Data collection and demographics of the sample.* Data were collected in 2010-2011 in Israel. Combining convenient and snowball samples, 500 individuals from all over Israel were surveyed via a questionnaire. The questionnaire was produced in Hebrew and Russian (for immigrants from the FSU who constitute 85% of the immigrant population in Israel) and administered by speakers fluent both in Hebrew and Russian. The respondents could therefore choose the language of the questionnaire. The Hebrew version of the questionnaire was compared with the Russian, using a back-translation method and inspection by speakers fluent in both languages in order to ensure equivalence of meaning.

The gender distribution in our sample was almost equal: 45.8 percent of the respondents were women and 54.2 percent were men. Native-born individuals constituted 52.6% of the sample (263 persons) and immigrants constituted 47.4% (237 persons). The mean age of the respondents was 37.3 (the minimum age was 19 and the maximum age was 73). The mean income of an immigrant in this sample was about 2300\$. This corresponded with the Israeli Central Bureau of Statistics, according to which the mean wage was about 2430\$ in 2010-2011. For immigrants, their duration living in the host country was 18.2 years. This corresponded with the national statistical data, indicating that nearly 60 percent of all immigrants of the last thirty years came to Israel in the early 1990s. Thus, the demographic characteristics of the sample in this study corresponded with the national statistics as to gender division, mean income and duration living in Israel.

Measures. Variables describing the respondents' human capital were age (a continuous variable measured in years), gender (coded "0" = female and "1" = male), origin (coded "0" = immigrant and "1" = native-born), income (categorized on a scale of "1" = have no current income to "7" = over 4300\$), employment (coded "0" = unemployed and "1" = employed), and education in terms of credentials (categorized on a scale of 1—7 where "1" = less than 12 years of schooling; "2" = up to a matriculation certificate; "3" = a matriculation certificate; "4" = vocational studies; "5" = undergraduate degree; "6" = graduate degree; "7" = doctoral degree). In order to clarify difficulties in respondents' characteristics between the clusters this variable was recoded to 4

categories ("1" = up to and including a matriculation certificate; "2" = vocational studies; "3" = undergraduate degree» and "4" = graduate or doctoral degree). The variables that were relevant only for immigrants were duration living in the host country (a continuous variable measured in years) and age at immigration (a continuous variable measured in years).

Based on the literature review, a list of components for awareness was created. In order to distinguish groups of components of awareness, I used factor analysis that determined 4 factors.

— Factor 1: Financial awareness: meaning of convertible bonds (loading 0.809), number of stocks that were included in the Index of Derivatives (MAOF) (loading 0.756), the best world rating for stocks (loading 0.744), meaning of the FOREX market (loading 0.672), and determinants of stock market prices (loading 0.556).

— Factor 2: Macroeconomic awareness: last year's inflation rate (0.777), last year's unemployment rate (0.720), and minimum wage (0.550).

— Factor 3: General economic awareness: name of the Head of the Central Bank (0.835) and percentage of VAT (0.779);

— Factor 4: Bank awareness: possible collateral for a bank (0.679), banking transactions subject to commissions (0.668), and interest rates relevant for yearly bank deposits (0.561).

Total variance extracted by the four factors was 54.6% (Rotation method: Varimax; eigenvalue > 1.0). A score for each factor was calculated by creating an index of all items included in that factor and by calculating the average score of these items. Thus, we received four variables: financial awareness, macroeconomic awareness, general economic awareness and bank awareness. Total awareness index was calculated as the average score of all the items of awareness.

Results. *Differences in Economic Awareness.* First, hierarchical clustering was used to determine the optimal number of clusters, which was found to be three. They were: highly aware persons (High-aware), lowly aware persons (Low-aware) and aware about daily economic activities but ignorant about macro issues (Daily-aware but macro-ignorant). The relevance of classifying components of awareness on macroeconomic, financial, bank and general economic awareness was corroborated by the factor analysis, which determined four factors

Then, a hierarchical clustering algorithm was performed to divide the respondents into three clusters based on their scores of the awareness components. The contribution of each of the four factors to the formation of the clusters was examined with the ANOVA test. The study revealed that each of the four factors contributed

Table 1

Cluster Analysis Results: Final Cluster Centers for the Awareness Factors

| Components of Awareness (1 – 4) | Clusters | | | p-Value |
|---|-------------------|------------------|---|---------|
| | 1 - High Aware | 2 - Low Aware | 3 - Daily Aware but Macro Ignorant | |
| 1. Financial awareness | 2.82 | 1.28 | 2.04 | 0.000 |
| What are convertible bonds? | 2.75 | 1.29 | 2.08 | 0.000 |
| How many stocks are included in the Index of Derivatives (MAOF)? | 2.59 | 1.12 | 1.55 | 0.000 |
| What is the best world rating for stocks? | 2.70 | 1.23 | 1.88 | 0.000 |
| What is the FOREX market? | 2.52 | 1.20 | 1.73 | 0.000 |
| 2. Bank awareness | 3.53 | 1.56 | 2.93 | 0.000 |
| What kind of interest rate is relevant for yearly bank deposits? | 3.45 | 2.44 | 3.33 | 0.000 |
| What banking transactions are subject to commissions? | 2.82 | 1.92 | 2.70 | 0.000 |
| What can be collateral for a bank? | 3.79 | 3.20 | 3.78 | 0.000 |
| 3. Macroeconomic awareness | 3.75 | 2.20 | 3.52 | 0.000 |
| What was the inflation last year? | 3.01 | 1.56 | 1.94 | 0.000 |
| What was the unemployment rate last year? | 2.81 | 1.20 | 1.52 | 0.000 |
| What is the minimum wage? | 2.60 | 1.27 | 1.45 | 0.000 |
| 4. General economic awareness | 3.62 | 2.23 | 2.85 | 0.000 |
| Who is the Head of the Central Bank? | 3.61 | 2.85 | 3.20 | 0.000 |
| What is the percentage of VAT? | 3.74 | 3.07 | 3.37 | 0.000 |

significantly (p -Value < 0.000) to the formation of the three clusters. Table 1 presents the cluster analysis results, which show that each cluster is characterized by a different combination of emphases on awareness' components.

The data were also presented in the form of a Radar graph (Fig. 1) for the presentation of cluster analysis results. The graph clearly depicts the three clusters. The grades of awareness components were placed on the axes.

The figure shows that awareness about bank activities and operation and general economic awareness were higher than macroeconomic and financial awareness among the respondents of all three clusters. The lowest was financial awareness that concerned less common issues such as bonds markets, derivatives, stock and FOREX market.

The wide public is familiar with bank activity, since it encounters this sort of activity in everyday life. People are aware of common issues such as VAT percentage because they buy goods every day. They also hear in the news about decisions by the Head of the Central Bank, whose authority in Israel is greater than in other countries and is thus involved in public economic daily life much more than in other countries. Even representatives of the

“Low—Aware” cluster showed fairly high general awareness (2.85 on a scale of 1 to 4).

Characteristics of Identified Clusters. The features that characterized respondents in each cluster were analyzed (Tab. 2). The results of the study revealed that gender and origin, income and for immigrants duration living in the host country explained the distribution of respondents between the clusters. The study revealed that native-born men were overrepresented and immigrant women were underrepresented in the “High-Aware” cluster. The division of immigrant men and native-born women among the clusters was very similar, hence, these groups showed quite similar patterns of awareness. No differences were found between clusters as to respondents' age, age at immigration (for immigrants only) and education.

Determinants of economic awareness. Regression analysis was conducted in order to explore the determinants of each component of economic awareness (Tab. 3). The range of independent variables covered the respondents' demographic characteristics (gender, origin, age, education, income and employment). Dependent variables were financial awareness, macroeconomic awareness, general economic awareness, and bank awareness.

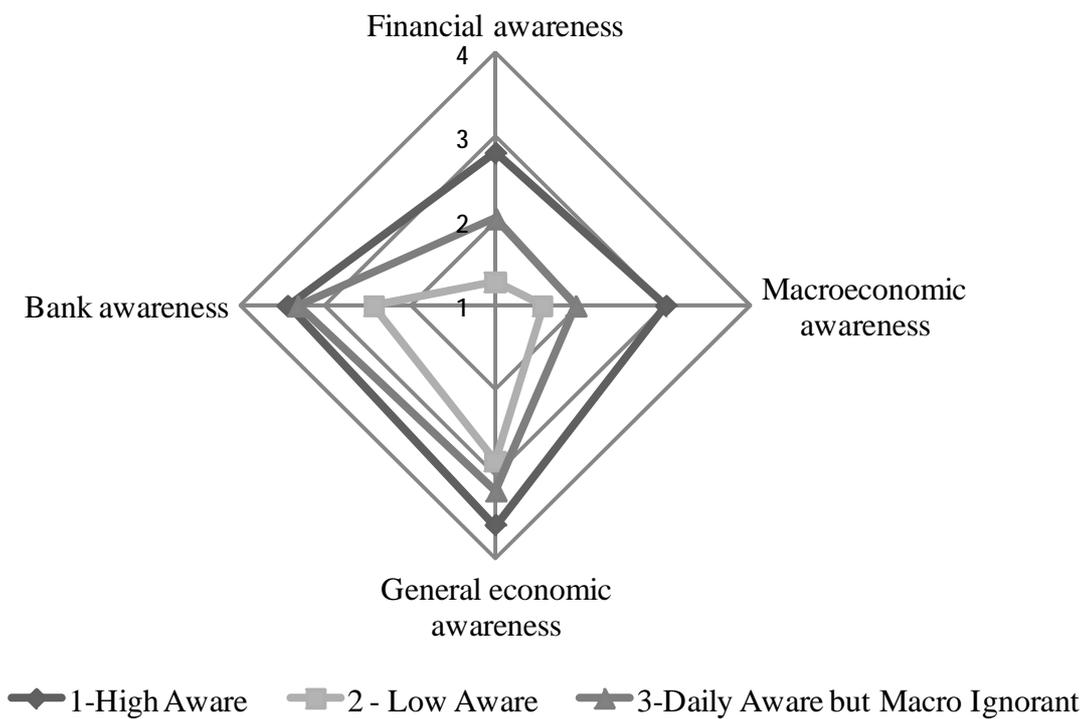


Fig. 1. Components of Economic Awareness by Three Clusters

Table 2

Characteristics of the Clusters (by Components of Awareness)

| Issues | Clusters | | | Test | p-Value |
|---|----------------|---------------|------------------------------------|----------------------------------|---------|
| | 1 - High Aware | 2 - Low Aware | 3 - Daily Aware but Macro Ignorant | | |
| Age | 38.7 | 36.4 | 35.1 | ANOVA | NS |
| Gender * Origin | 100% | 100% | 100% | Chi-square, $\chi^2 = 43.217$ | 0 |
| Immigrant Female | 15.10% | 37.30% | 43.30% | | |
| Immigrant Male | 27.20% | 29.30% | 25.00% | | |
| Native-born Female | 22.80% | 20.00% | 16.70% | | |
| Native-born Male | 34.90% | 13.30% | 15.00% | | |
| Education | 100% | 100% | 100% | Chi-square | NS |
| Up to and including a matriculation certificate | 31.80% | 41.90% | 38.30% | | |
| Vocational studies | 17.50% | 16.20% | 13.30% | | |
| Undergraduate degree | 33.80% | 24.30% | 35.00% | | |
| Graduate or doctoral degree | 16.90% | 17.60% | 13.30% | | |
| Income (scale of 1 to 7) | 4.16 | 3.33 | 3.36 | ANOVA F=8.964 | 0 |
| For immigrants only: | | | | | |
| Age at immigration | 21.9 | 22.3 | 18.6 | ANOVA | NS |
| Duration living in the host country, years | 19.5 | 16.1 | 17.5 | ANOVA F=3.960 | 0.02 |

Table 3

Regression results for components of awareness

| Independent variables | Financial awareness, R ² =0.212**** (0.000) | | Macroeconomic awareness, R ² =0.904**** (0.000) | | Total awareness R ² = 0.148**** (0.000) | |
|-------------------------------------|--|--------------|--|--------------|--|--------------|
| | Beta | t-statistics | Beta | t-statistics | Beta | t-statistics |
| Gender | .175**** (0.000) | 4.151 | .138*** (0.002) | 3.061 | .166**** (0.000) | 3.801 |
| Age | -.228**** (0.000) | -5.126 | -.015 (0.761) | -.304 | -.129** (0.006) | -2.786 |
| Immigrant or Native-born | .301**** (0.000) | 7.154 | .174**** (0.000) | 3.850 | .256**** (0.000) | 5.837 |
| Education | .229**** (0.000) | 4.991 | .045 (0.361) | .914 | .163*** (0.001) | 3.405 |
| Income | .065 (0.202) | 1.277 | .174*** (0.002) | 3.183 | .111** (0.038) | 2.080 |
| Employment (Employed/Unemployed) | -.149*** (0.001) | -3.363 | -.057 (0.227) | -1.211 | -.132*** (0.004) | -2.863 |
| (Constant) | (0.000) | 10.146 | (0.000) | 10.730 | (0.000) | 18.676 |

Notes: **** Sig.<0.000; *** Sig.<0.005; ** Sig.<0.05; * Sig. < 0.10.

Only three regressions — for financial awareness, macroeconomic awareness and total awareness — were significant (Sig. < 0.000), whereas about 21% of the variance of the financial awareness, about 15% of the variance of the total awareness and 9% of the macroeconomic awareness can be explained by the independent variables of the model. Table 3 shows that total awareness was significantly affected by all the independent variables. Men reported higher financial, macroeconomic and total awareness than women did. Native-born persons showed higher financial, macroeconomic and total awareness than immigrants did. However, the impact of these factors on the components of awareness was not identical. The education level and employment positively affected only financial awareness and total awareness. The older respondents were, the higher financially and totally aware they were. High income contributed to macroeconomic but not to financial awareness.

Conclusions. The study distinguished four types of economic awareness: financial awareness, macroeconomic awareness, general economic awareness, and bank awareness. All respondents were divided into clusters according to their levels of awareness of these components.

The study found quite a high level of awareness about daily bank activities and operation and general economic issues, and relatively low levels of macroeconomic and especially financial awareness. This finding is in accordance with Evel'kin (2002) who stressed that the most economic interest was limited to

the most obvious, everyday problems, whereas deeper economic problems attracted only a small part of population.

The personal characteristics of the respondents in three clusters were different. Slightly more than one half of the respondents in the “High Aware” cluster were male, native-born, and highly educated. On the other hand, female, immigrant and low-educated persons were overrepresented in the “Low Aware” cluster. Hence, immigrant women were found to be doubly disadvantaged: firstly, gender-disadvantaged, and secondly, disadvantaged because of being immigrants and thus having less experience and poorer information about the host country's market. Living longer in the host country increased economic awareness. The income of high-aware persons was significantly higher than that of other groups.

Thus, the study revealed that the factors that significantly affected awareness were gender, age, being an immigrant, education, income and being employed. Education, employment and age significantly positively contributed to financial awareness. It was surprising to find that persons with a higher income did not show higher financial awareness, although they were more aware about macroeconomic issues.

This study has some policy implementations. Understanding which groups of population have low economic awareness can help decision makers to develop programs strengthening economic and financial awareness. Enhancing awareness would help people to better manage better their debts and financial and pension

assets. For immigrants, possessing economic awareness can speed up their integration in the host country.

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Kushnirovich N. O. Determinants of Personal Economic Awareness

This study examined the differences in personal economic awareness between different groups of population, and investigated the determinants of raising economic awareness. The study found quite a high level of awareness about bank activities and general economic issues, and relatively low levels of macroeconomic and especially financial awareness. The factors that significantly influenced economic awareness were gender, age, education, income, being native-born, and being employed. Male, native-born, highly educated people were overrepresented in the high-awareness cluster, whereas female, immigrant, low-educated persons were overrepresented in the low-awareness cluster. Therefore, immigrant women were found to be

doubly disadvantaged. The income of high-awareness persons was significantly higher than that of low-awareness persons.

Key words: Economic Awareness, Financial Literacy, Immigrant Women.

Кушнірович Н. О. Детермінанти особистої економічної обізнаності

У роботі досліджено відмінності на рівні особистої економічної обізнаності між різними групами населення. За допомогою методів факторного, ієрархічного, кластерного й регресійного аналізу визначені детермінанти економічної обізнаності населення. Дослідження виявило досить високий рівень знань про діяльність банківської системи й загальної економічної обізнаності. Макроекономічна, а особливо фінансова обізнаність населення були значно нижче. Як показало дослідження, стать, вік, освіта, прибуток, зайнятість на ринку праці і факт імміграції мають значний вплив на економічну обізнаність. Чоловіки, люди з високим рівнем освіти, корінні мешканці країни склали більшість у групі з високим рівнем обізнаності. Відповідно жінки, люди з низьким рівнем освіти, а також іммігранти склали більшість в групі з низьким рівнем обізнаності. Таким чином, економічна обізнаність жінок-іммігранток є найбільш низькою. Дохід людей з високим рівнем економічної обізнаності значно вищий, ніж у людей з низькою обізнаністю.

Ключові слова: економічна обізнаність населення, фінансова грамотність, жінки-іммігрантки.

Кушнірович Н. А. Детерминанты личной экономической осведомленности

В данной работе исследованы различия в уровне личной экономической осведомленности между разными группами населения. С помощью методов факторного, иерархического, кластерного и регрессионного анализа определены детерминанты экономической осведомленности населения. Исследование выявило довольно высокий уровень знаний о деятельности банковской системы и общей экономической осведомленности. Макроэкономическая и особенно финансовая осведомленность населения были значительно ниже. Как показало исследование, пол, возраст, образование, доход, занятость на рынке труда и факт иммиграции оказывают значительное влияние на экономическую осведомленность. Мужчины, люди с высоким уровнем образования, коренные жители страны составили большинство в группе с высоким уровнем осведомленности. Соответственно женщины, люди с низким уровнем образования, а также иммигранты составили большинство в группе с низким уровнем осведомленности. Таким образом, экономическая осведомленность женщин-иммигранток является наиболее низкой. Доход людей с высоким уровнем экономической осведомленности значительно выше, чем у людей с низкой осведомленностью.

Ключевые слова: экономическая осведомленность населения, финансовая грамотность, женщины-иммигрантки.

Received by the editors: 14.07.2011
and final form in 25.11.2011