



Focus on Major Financial Decisions

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The views and opinions expressed are those of the presenter. They do not represent an official position of the Federal Reserve Bank of Richmond or the Federal Reserve System.

Why Financial Education?

- Hard to argue against giving people tools and information about their financial choices to help them make good decisions!
- Raises three questions:
 - Do we know “bad” financial choices when we see them?
 - What decisions should we focus on?
 - What helps individuals evaluate financial choices?



Do we know “bad” financial choices when we see them?



- Making a mistake means selecting a particular choice when an unambiguously superior one is available.
- Who decides – outside observer or decision-maker?
- Limit choices or improve people’s ability to evaluate them?



Which financial decisions warrant the most attention?

- The cost of making an uninformed choice is higher for some decisions than others.
- This has implications for where to focus financial education efforts.



What makes a financial decision **major**?

$$\max_S \int_S^{\infty} \exp(-(r + \nu)t) w(t) h(t) dt$$

Complex



Infrequent



Irreversible



Long-term

Source of Maximization Problem:
Acemoglu, Daron and David Autor. "Lectures in Labor Economics." MIT.

What helps individuals evaluate financial choices?



- Reliable, unbiased information



- Numeracy



- Conceptual knowledge



- Using teachable moments



- Simple and clear disclosures



Richmond Fed Perspective on Financial Education

Our Perspective

[Too Big to Fail](#)

[Monetary Policy Independence](#)

[Housing Finance Policy](#)

[Price Stability and Monetary Policy](#)

[Labor Markets and Monetary Policy](#)

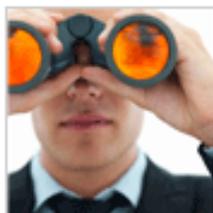
[Workforce Development](#)

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Research

Our Perspective



This series articulates the Richmond Fed's views on issues of particular importance to the economy and the financial system.

Financial Education

Instead of prescribing specific financial advice, financial education efforts arguably should focus on providing information to enhance the ability of individuals to evaluate their own options, particularly for life's major financial decisions.



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The Upshot

- What decisions should we focus on?
 - The “major” ones – complex, consequential, irreversible, infrequent, long-term
- Do we know “bad” financial choices when we see them?
 - Rarely. Empowering individuals to make the best decision for themselves in the context of their own unique circumstances seems more effective.
- What helps individuals evaluate financial choices?
 - High-quality, timely, and clear information; numeracy and conceptual knowledge

