

Abstract

The literature documents robust evidence of a gender gap in financial literacy: Women consistently show lower levels of financial literacy than men. We have devised two surveys to investigate whether this gender gap is the result of lack of knowledge or lack of confidence. Our findings show that women are less confident in their knowledge than men. They disproportionately answer “do not know” to financial knowledge questions, even if they know the correct answer. We develop an empirical strategy to consistently estimate whether the respondent knows the correct answer. Using this improved metric for knowledge, the gender gap diminishes by about half but does not disappear. An important implication of our findings is that traditional financial literacy measures are plagued by confidence bias or measurement error. Using the corrected measures for financial literacy, we show that financial knowledge is important to explain household financial behaviors such as stock market participation and retirement planning.