

GENDER GAP IN FINANCE

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Abstract

The gender gap in finance has a pervasive impact on economic well-being of women. Surely, financially literate woman as well as men are needed to strengthen the economy. The following paper contains analysis of disparity of financial literacy among men and women of various ages and with different backgrounds. Data of the surveys from several countries is collected and analyzed in order to get the full picture of state of gender imbalance in financial matters. This article explores the importance of financial education of women and different possible reasons of lack of financial competence among women. The article examines how well the representatives of two genders know basic financial concepts, at what age are they more likely to make correct financial decisions and how marital status of men and women affect the level of their financial understanding.

Keywords: Financial literacy, financial illiteracy, gender gap in finance, disparity of knowledge, financial decision-making, retirement planning, financial concepts.

Introduction

A group of researchers from University of Groningen- Tabea Bucher-Koenen, Annamaria Lusardi, Rob Alessie, and Maarten van Rooij conducted several studies and analyzed financial literacy of woman across countries. This work was done to enrich women's knowledge in finances, supporting them in planning their retirement and helping to manage security of their finances. By scientists it was found out that women of all ages are less aware of basic principles of finances or know little about financial security as compared to men. Observation also displayed that in comparison to men, women are less informed about simple concepts as well as more advanced financial terms. However, the role financial literacy plays in females' lives is vast since statistically they are likely to live longer than men, which means that occasionally women tend to spend some period of their lives in widowhood. It is crucial that women are financially literate and possess skills like retirement planning or other ones as only by this can we contribute to financially more stable and wealthier lives of representatives of this gender.



METHODS

The article is based on the surveys of researchers Tabea Bucher-Koenen, Annamaria Lusardi, Rob Alessie, and Maarten van Rooij of the university of Groningen, who has conducted several studies on measuring difference of financial knowledge among males and females. Mainly, researchers have polled a vast number of people through asking various questions on topics like investment, inflation etc. Finally, the collected data is compared and analyzed and several common trends are concluded.

DISCUSSION

Through various studies it was revealed that a vast number of women not only lack financial knowledge but also is illiterate when it comes to taking measures to ensure good financial condition. In many cases females rely on their spouses. For instance, one of the researches in the United States showed that poverty among old-age women is linked to the loss of a husband. Also, it is harder for females to go up the career ladder since they have to go to maternity leave. In fact, it is claimed that women are not good at preparing for the retirement as they tend to neglect quite important aspect of finances- planning.

In their work, researchers have investigated a huge amount of data on financial literacy all over the world. However, the main purpose of the completed work was to analyze the contrast in financial literacy in terms of gender differences. The state of financial literacy of the population was studied in 12 countries by Lusardi and Mitchell. In addition to this, scientists have also considered data from American, Dutch and German surveys that made it possible to form a better vision of the issue on the global level. With all the data, the scientists were able to investigate the gender gap in financial literacy and provide solutions of the population's shortcomings in finance.

The surveys, that were supposed to analyze financial literacy were based on the Big Three method (Hastings, Madrian and Skimmyhorn [1] and some other collections of questions.

Lusardi and Mitchell have created model questions that enable checking the knowledge of fundamental financial decision-making concepts and contrasting results across countries. This model allows investigation of knowledge on investments and savings.

The asked questions are followings (with different currencies):

1. Interest Rate Question: "Suppose you had \$100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money to grow? More than \$102; Exactly \$102; Less than \$102; Do not know; Refuse to answer."

2. Inflation Question: "Imagine that the interest rate on your savings account was 1% per year and inflation was 2% per year. After 1 year, how much would you be able to buy with the money in this account? More than today; Exactly the same; Less than today; Do not know; Refuse to answer."

3. Risk Diversification Question: "Please tell me whether this statement is true or false. "Buying a single company's stock usually provides a safer return than a stock mutual fund." True; False; Do not know; Refuse to answer"



In summary, in the USA, women were found to be less financially literate than men in all aspects. For example, for the questions about interest rate and inflation, only 58% of females responded correctly, whereas for men this figure was about 70% in both questions. Similar to this, to the question about risk diversification, about 47% of females and 57% of males answered correctly. In general, compared to men, slightly more women refused to answer the questions. And half of the asked women at least once responded that they didn't know the answer.

In the case of the Netherlands, all the respondents showed better results. Although women didn't answer as well as men, they responded to the questions more correctly than women in the USA, and they even answered the question on risk diversification better than men, that is 16% to 11%. However, to all three questions, females were much more likely to respond that they didn't know the answer.

In Germany, in the first question, female respondents did almost as well as males, accounting for 81% and 84% of correct answers. For the second question on inflation, 74% of women and 83% of men responded correctly. Meanwhile, these figures were different from those indicating correct answers to the question about risk diversification, where only 5% of females and 7% of males succeeded. Similar to the cases in the other two countries, in Germany more women claimed that they didn't know the correct option.

Additionally, Mahdavi and Horton found that a remarkable number of women can be financially illiterate despite being well-educated. Lusardi, Mitchell, and Curto [2] revealed that the gap in financial literacy between males and females is significant at all ages—in their case, among respondents with college education.

There is certainly a need to study the level of financial literacy between the two genders in terms of age. It's often claimed that women are less financially literate since they are more likely to stay at home and look after children, etc. Thus, they have fewer opportunities to deal with financial decisions. This scenario usually happens to older women, as the younger generation of women is more likely to diverge from traditional societal roles and participate in the workforce more actively.

Researchers have analyzed financial literacy among men and women of various ages again in the USA, Netherlands, and Germany. In all three countries, women who answered correctly to all 3 questions were fewer than men of this type.

In the US, the best results were shown by women at the age of 36-50 (33%) and men 51-65 (55%). In the Netherlands, participants did better, and both men and women at the age under 35 provided more correct answers, that is 38% of women and 59% of men. In Germany, the participants who answered correctly the most were women and men at the age of 36-50, that is 55% and 69% respectively. From the provided data, it is visible that participants from Germany succeeded the best.

The group of researchers has also studied the level of financial literacy among males and females of different marital status and made a striking conclusion.

In the US National capability study, it was found that among all women the most financially competent were married women (27.7%) and single women were the least (13.4%). Similarly, among men the most correct answers were given by married men (47.7%) and the fewest correct ones were by widowed men (21.4%). In the Netherlands the situation was a bit different.



Single women (43.8%) and widowed men (61.5%) answered correctly the most. The fewest number of correct answers were given by divorced women (21.6%) and single men (53.7). In Germany, the situation was again unusual. Married women (55.5%) distributed the greatest number of correct and widowed women distributed the fewest number of correct answers (28.7%). In case with men, the single men (62.2%) answered the best and widowed men answered the worst (48.8%). From the collected data we may conclude that marital status cannot be an ideal indicator that can help us understand how gender affects financial understanding.

RESULTS

The survey with interviewing participants with three questions, held in different formats and several other similar studies provide striking results. It became visible that women are less financially literate as they give fewer correct answers and more often respond "I don't know the answer" to questions about financial concepts, which underlines their lack of awareness and reluctance to try.

The findings of the survey that tested financial literacy of the young cannot be called as auspicious since they indicate that young generation manages its finances not as it is required. Knowledge of financial concepts is really important for young people as they have to make a lot of crucial financial decisions- starting from how to invest money or how much to spend or to save.

Apart from this, many other surveys have shown results similar to this finding.

CONCLUSION

In this article gender disparity is examined by a range of methods. Statistically, it is evident that we can sum up that financial illiteracy is severe among females across the world and there is a lot of work that needs to be done to enhance the situation all around the world. In the paper we, mainly, zoomed in the situations in the developed countries like the USA, the Netherlands and Germany. Studying these countries, we found that women are much less financially literate than men. Now we can predict the situation in developing or un-developed countries. In future studies there is a need to examine a wider range of countries and take actions to decrease the level of financial illiteracy among women and prevent increase the gender gap since there obviously is necessity for women to evolve and provide themselves with financial security.

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