

BOOK REVIEW: “FINANCIAL LITERACY IN ITALY: EMPIRICAL EVIDENCE AND THEORETICAL PROPOSALS”

by

Gian Paolo Stella, Umberto Filotto, and Enrico Maria Cervellati
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In contemporary economies, financial literacy represents a pivotal competency that individuals must possess to effectively and sustainably administer businesses (Refera & Kolech, 2015). Financial literacy, in accordance with the Organisation for Economic Co-operation and Development's (OECD, 2018) delineation, constitutes a multifaceted amalgamation of knowledge, aptitudes, behavioral tendencies, and cognitive awareness held by individuals for the express purpose of adeptly managing and fostering corporate enterprises.

Behrman et al. (2012), Lusardi (2019) and Lusardi and Mitchell (2014) assert that an individual endowed with financial literacy possesses the requisite acumen to strategize and prognosticate the trajectory of enterprises. It is pertinent to acknowledge, however, that despite the burgeoning research efforts concerning financial literacy, particularly catalyzed by technological advancements in recent years, a standardized and universally accepted definition thereof remains conspicuously elusive (Potrich et al., 2015).

It is imperative to note that financial literacy holds paramount importance for individuals engaged in financial matters, both at the national and global levels (Agarwal et al., 2009). In the contemporary era of digitization, this significance is even more pronounced (Setiawan et al., 2020), given its direct impact on financial transactions such as loans, investments, money and capital management (Widdowson & Hailwood, 2007).

An individual's financial knowledge serves as the foundation for their financial behavior, encompassing the ability to make optimal financial decisions by customizing financial plans for the better application of both businesses and individuals (Parotta, 1996). Xiao (2008) asserts that any human behavior related to or influencing capital management is considered behavioral finance.

According to Holzmann (2010), the financial knowledge acquired by individuals equips them with the ability to use financial information in a manner that enhances the financial position of both themselves and the businesses and organizations they engage with. Through this knowledge, financial behavior is developed, signifying the capability to plan and execute a strategy that can be adjusted as needed to optimize terms or adapt to unforeseen challenges (Prihartono & Asandimitra, 2018).

As can be discerned, financial stability holds significant importance for both microeconomic and macroeconomic futures (Munohsamy, 2015). This is because decision-makers, lacking sufficient financial knowledge, can inadvertently make erroneous or incomplete financial decisions (Jacob, 2000), potentially hindering the attainment of long-term goals (Ergün, 2018). The scenario, characterized by inadequate or deficient financial knowledge, can lead to misguided financial decisions, increasing susceptibility to debt and, consequently, the risk of insolvency (Bourova et al., 2018; Wang et al., 2021).

Conversely, individuals well-versed in financial matters, armed with strong foundational knowledge, can steer clear of financial pitfalls by adeptly managing their resources and making informed decisions aimed at maximizing returns (Van Rooi et al., 2012; Yuesti et al., 2020). According to Jacob (2000) and Lusardi (2019), financial knowledge is not merely a lifebuoy but plays a pivotal role in capital accumulation and, consequently, sustainability, thereby enhancing the capacity for sound decision-making (Refera & Kolech, 2015).

The book *“Financial Literacy in Italy: Empirical Evidence and Theoretical Proposals”* by Stella, Filotto, and Cervellati (2023) responds to the issue of financial literacy in Italy, both in theoretical and empirical view. This book is driven by the escalating intricacy of financial instruments and the evolving requirements of individuals, necessitating the implementation of strategies aimed at enhancing individuals’ financial literacy. As an individual’s financial literacy level appears to play a crucial role in establishing their standing within the financial system in relation to other economic actors, a deficiency in financial knowledge and skills or financial illiteracy has the potential to result in enduring financial challenges. Consequently, attaining an adequate level of financial literacy is a fundamental prerequisite for achieving financial well-being.

This book consists of four chapters, divided into two parts. The first part, an in-depth and discerning evaluation of past research and empirical data pertaining to international financial literacy is presented. This examination encompasses perspectives from both conventional finance, as discussed in Chapter 1, and the behavioral finance standpoint as explored in Chapter 2.

Chapter 1 introduces the reader to the “Traditional finance perspective on financial literacy”, offering an overview of the theoretical foundations employed within finance to assess financial literacy. This chapter provides a succinct yet in-depth analysis of various financial aspects and the requisite knowledge necessary for the nuanced assessment and establishment of financial literacy. By exploring the core principles and concepts of finance, the authors strive to provide readers with a solid foundation for understanding and evaluating financial literacy in a comprehensive manner.

Chapter 2 deals with the “Behavioral finance approach to the financial literacy”. This chapter not only delves into the OECD report, which sheds light on behavioral insights as they relate to financial literacy and investor education programs but also extends its focus to the specific case of Italy. It also delves into the discussion of debiasing techniques and the strategies for implementing behavioral insights.

The second part of the book, consisting of Chapters 3 and 4, encompasses the empirical study. In Chapter 3, an examination is conducted to scrutinize the interconnections among behavioral tendencies, financial literacy, and personality traits, employing a survey involving respondents from Italy. The survey instrument encompassed a questionnaire featuring inquiries related to fundamental financial knowledge metrics, in addition to a concise adaptation of the ‘Big Five’ personality traits model.

Chapter 4 presents the association between variations in gross domestic product (GDP) across different macro-regions in Italy and indicators of financial literacy. Italy serves as a valuable case study for examining the repercussions and implications of financial literacy, as Italians generally exhibit lower levels of financial literacy. To accomplish the research objectives, authors employed an innovative methodology that amalgamates established metrics from prior studies with novel variables that enhance our comprehension of financial literacy. Finally in order to assess financial attitudes and skills, authors introduce a novel set of measurement items developed in accordance with the guidelines outlined by the OECD (2018).

Overall, this book addresses significant issues pertaining to a rather compelling subject that touches upon modern economies, which are consistently influenced by external factors. Financial knowledge is the key that will not only provide assurances to economies but also to individuals, enabling positive future development and an improvement in their standard of living. The era when the average citizen showed little interest in their country's economy has passed. In today's globalized world, with economies becoming increasingly interconnected, collective efforts are required from all quarters to ensure the well-being of citizens, businesses, and economies.

Hopefully the topics of the collection of papers will help readers and researchers that focuses on financial literacy to comprehend the utility and significance of financial knowledge and to address any gaps that may arise, forging new ideas and frontiers within the discipline.

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