Project Description: "Financial Literacy: A Dynamic Model"

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Goal

To replicate the paper Lusardi et al. (2017) by coding up the dynamic model using Python.

Structure

The model is solved by backwards induction, and we simplify the model and gradually incorporate omitted parts bit by bit. That is, the first goal is to simply get the model up and running, and we then gradually add complexity to it in order to obtain a better fit. We expect two take-aways from the project:

- A strong understanding of how to set up dynamic models mathematically and programming-wise.
- By gradually adding complexity to the model, we are able to understand the effect of each element on the fit. For instance, it is interesting to understand how the choices of utility function and mortality risk affect the fit of the model. The project report will be centered around these insights.

References

Lusardi, A., Michaud, P.-C., and Mitchell, O. S. (2017). Optimal financial knowledge and wealth inequality. *Journal of Political Economy*, 125(2):431–477.