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## The Role of Financial Knowledge in Life

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**Abstract:** We show that financial knowledge is a key determinant of wealth inequality in a stochastic life cycle model with endogenous financial knowledge accumulation, where financial knowledge enables individuals to better allocate lifetime resources in a world of uncertainty and imperfect insurance. Moreover, because of how the US social insurance system works, better-educated individuals have most to gain from investing in financial knowledge. Our parsimonious specification generates substantial wealth inequality relative to a one-asset saving model and one in which returns on wealth depend on portfolio composition alone. We estimate that 30–40 percent of retirement wealth inequality is accounted for by financial knowledge.

**Keywords:** financial knowledge, finance, economic growth, financial literacy.

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### Introduction

Financial literacy is very important to society around the world. The economic growth of a country depends on the literacy rate of its population. The more services in the financial sector, the more competition. But not many people in the world have that kind of knowledge. Why do we say that? Because those who have such knowledge have achieved their personal careers or have already started their own businesses and made good money. But it is difficult to find many of them. People want to live well, drive expensive cars and travel the world. But these are difficult to achieve without financial knowledge. So what is finance? Why do you need financial knowledge? Let's think about how important this is in our lives.

There are many tariffs on finance. For example, the scientific literature refers to "economic relations arising from the creation, accumulation, distribution, and redistribution or use of finance-centralized and decentralized trust funds." In other sources, "Finance is a system of relations related to the use of money and the regulation of its movement, through which funds of different levels are created, which meet the needs of reproduction and other social needs. distributed for satisfaction. " In our opinion, finance is inextricably linked with monetary relations, the accumulation of funds, the establishment of funds and the proper distribution of funds between the required sectors and industries, control over them. is the process of carrying. In short, it is the wise use of money. Financial knowledge is a set of financial knowledge aimed at improving the quality of life. So why study finance? Let's look at a family.

For example, the correct distribution of family income to consumption and savings, the correct use of financial laws and regulations in the correct investment or conversion of savings, ie a simple loan or avoid being deceived by the false advice of the experts in quotes on tax matters. Financial literacy is very important not only in the family but also in starting your own business. " 90% of entrepreneurs and companies around the world are forced to close down due to lack of financial knowledge. "Robert

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Kiyosaki, a well-known businessman, quotes this information in his works. Come to think of it, this information is true. Because they don't make the right financial decisions. For example:

1- They do not know exactly what kind of activity they are engaged in, what kind of product they are producing and what kind of service they are engaged in.

2- They don't know how to invest. That is, they spend more on assets than on assets, on poor equipment, capital and technology.

3- They do not know how to conduct financial policy. Lack of complete information about securities, stocks, bonds leads to financial crisis.

In short, financial literacy plays an important role in every aspect of our lives. That is, if we have strong financial knowledge, we can improve our quality of life by protecting our family from various surprises. This is important for each of us, especially for government and financial institutions. If people have financial knowledge and make the right decisions, the number of consumers will increase, the quality of products will improve, the economy will stabilize, and people's incomes will increase, and as a result, living standards will increase. In our opinion, it is possible to know how important financial knowledge is through this article.

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