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Financial literacy and lottery gambling behaviour: Findings from the State-by-State National Financial Capability Study

> ### What you need to know
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> Lotteries are the most prevalent form of gambling in the United States. Playing the lottery can have a negative impact on those who engage in it heavily. Financial literacy is the ability to understand and use different types of financial knowledge to make financial decisions. This study examined the relationship between financial literacy and the frequency of buying the lottery. It used restricted-version data from the United States' 2018 state-by-state survey of the National Financial Capability study. The survey had responses from 26,566 adults. The researcher found that greater financial literacy reduced lottery consumption of those who played moderately. But the effects of financial literacy were lessened among people who played the lottery more heavily.

What this research is about

Lotteries are the most prevalent form of gambling, with nearly 50% of Americans participating in state lottery games in 2015. Lottery gambling can have a negative impact on those who engage in it heavily. Previous research suggests that some people who play the lottery experience high rates of substance use and mental disorders. The lottery can also serve as a gateway to other forms of gambling, which may lead to financial and economic problems.

Financial literacy is the ability to understand and use different types of financial knowledge to make financial decisions. Financial knowledge may include budgeting, investing, and financial planning. Previous research has found that people who are financially literate are less likely to gamble because they tend to make sound financial decisions. People who are financially literate may also be less affected by irrational beliefs related to gambling.

Policies and programs that increase people's financial literacy may help to reduce gambling behaviours, including buying the lottery. This current study examined the relationship between financial literacy and the frequency of buying the lottery.

What the researchers did

The researcher used restricted-version data from the 2018 state-by-state survey of the National Financial Capability Study (SSS-NFCS) in the United States. This survey was produced by the Financial Industry Regulatory Authority Investor Education Foundation.

The purpose of the SSS-NFCS was to assess financial capability and its relation to different demographic, behavioural, attitudinal, and financial literacy characteristics. The SSS-NFCS was administered to approximately 500 respondents in each state. A total of 26,566 people participated in the 2018 survey.

The survey asked respondents to answer six questions that assessed their understanding of: (1) inflation rates; (2) interest rates; (3) the relationship between inflation and interest rates; and (4) risk diversification. Based on respondents' answers, the researcher was able to assess their financial literacy using the same methods used in previous research.

The SSS-NFCS also asked respondents to indicate how frequently they bought a lottery ticket. It asked for their age, gender, race, education levels, employment, marital and home-ownership status, and presence of children in the household. Respondents were also asked about whether they participated in financial education initiatives previously, their willingness to take risks on financial investments, credit record level, and annual income.

The researcher also used the United States Census Bureau data to average the five-year (2014–2018) percentage of college graduates among residents 25 years or older within each zip-code tabulation area (ZCTA). Residents of an area with more college graduates might know more financially knowledgeable people. Thus, the ZCTA level of education could make an impact on financial literacy through neighbourhood effects. The researcher included the ZCTA level of education in the analyses to take into account these effects.

What the researchers found

Respondents ranged in age from 18 to 24 years to 65 years and older. The percentage of respondents in each age category was roughly equal. About half of the respondents were women (51%), and more than half identified as white (63.7%). Nearly 60% of the respondents were married, employed, or owned their own residence. Approximately 40% finished at least college education. Most respondents (65%) had children living in their households. Respondents' annual income ranged from less than $15,000 to over $150,000. The percentages of respondents were roughly equal across most income levels. But fewer respondents reported incomes of $150,000 or more.

Approximately 17% of respondents reported having bad or very bad credit records. Most respondents (84.3%) had never received financial education in school or in their place of employment. Less than half of respondents (44%) reported not purchasing lottery products. But 10% reported purchasing lottery tickets at least a few times a week. They were classified as "heavy lottery players" by the researcher.

In general, people with higher financial literacy did not purchase lottery tickets as frequently as people with lower financial literacy. However, financial literacy was not as effective at curbing the lottery purchasing behaviour of people who played heavily as it was for people who played the lottery more moderately.

People who resided in a zip-code with a higher percentage of college graduates were more likely to be financially literate. People who had higher sociodemographic status (e.g., employed, college-educated, homeowners, or higher income) were found to purchase lottery tickets more frequently than people with lower sociodemographic status.

How you can use this research

The findings could be used to inform gambling policy and intervention efforts. Different policies may be needed to help reduce lottery consumption based on how frequently people play the lottery.

About the researchers

Seungyeon Cho is affiliated with the Department of Agricultural & Rural Development Research at the Korea Rural Economic Institute in Naju-si, South Korea. For more information about this study, please contact Seungyeon Cho at sycho@krei.re.kr.

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