

Empower the consumer! Energy-related financial literacy and its implications for economic decision making

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This version: April 24, 2019

Abstract

Untapped energy savings potential in the residential sector might lead to substantial welfare losses. While previous studies have focused on the role of behavioral biases in explaining the lack of adoption of energy-efficient durable goods, little is known about the role of limited energy-specific knowledge and financial literacy. Using data from a large European household survey, we explore the determinants of different measures of literacy and, most importantly, we identify and estimate the impact of limited knowledge and skills to perform an intertemporal optimization on the adoption of energy-efficient technologies. We document a strong positive impact of our integrated measure of energy-related financial literacy on consumers' adoption of energy-efficient light bulbs. In addition, the results indicate the presence of a gender gap in energy-related financial literacy, in analogy to the robust evidence for a gender gap in financial literacy. Our findings support the promotion of energy-specific and financial education programmes to increase the adoption of energy-efficient durable goods.

Keywords: Household decision making; Bounded rationality; Financial literacy; Consumer durables; Energy efficiency.

JEL Classification Codes: D12, D91, Q41.