

## **Abstract**

The low level of participation in financial markets by households is one of the empirical regularities that challenge some of the standard models in financial economics. Education is one of the variables mentioned in the literature as a potential factor explaining this limited participation. In this paper we estimate the causal effect of education on financial market participation using Chilean household surveys and exploiting the 1981 educational reform in Chile as a source of variation for educational levels.

We estimate that graduating from high school increases the probability of financial market participation by 3 percentage points. The size of this effect is economically important in the context of the Chilean financial market where participation in 2009 only reached 9.9%. Also, this effect represents almost half of the difference in participation between individuals who completed high school and those who dropped out. Exploring some of the potential mechanisms, we find that education has a larger impact on the probability of holding simple financial assets, suggesting that formal education brings households closer to financial markets either by increasing the households' need for these assets or by turning the households into more attractive clients for the financial markets.

Further, we show that education has a positive effect on individuals' willingness to take risk and their financial literacy.