DOES IMPROVING THE FINANCIAL LITERACY SKILLS OF ADULTS FORM A BASIS FOR COMBATING INFLATION? A CASE STUDY IN TÜRKİYE

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This study investigates, through the case of the province of Kastamonu, whether enhancing adults' levels of financial literacy contributes to the fight against inflation. Financial literacy refers to individuals' capacity to acquire knowledge and skills in finance so as to make informed decisions; inflation denotes the persistent rise in the general price level and the concomitant erosion of the purchasing power of money. In the pursuit of macroeconomic stability, household consumption habits and product demand play a decisive role in combating inflation; especially when supply is constrained, elevated demand pushes prices upwards and fuels inflation. The findings suggest that raising households' financial literacy can aid inflation control via the demand-management channel. In this context, equipping households through financial education programmes and optimising demand behaviours emerge as effective strategies. While strengthening adults' financial literacy serves as a key lever for fighting inflation, it is equally necessary to reassess demand-side behaviours to ensure price discipline on the supply side. Accordingly, scaling up financial education and increasing individual awareness are of clear importance. The research indicates that not only public bodies, educational institutions, and civil society organisations but also—primarily—households themselves shoulder significant responsibilities.

Key words*:* Supply, Demand, Financial Literacy, Inflation, Türkiye

JEL Classification Codes: G41, G51, H31

1. INTRODUCTION

Whether developing adults' financial literacy skills yields positive macroeconomic effects has long been a focal point of debate. Beyond the widespread view that financial literacy enables individuals to understand and manage their participation in economic processes (Bayram, 2014; Çetin, 2024; Kefela, 2011), there also exist studies suggesting that individuals whose financial literacy improves may channel resources into investment rather than savings (Lusardi, 2008; Jagannathan and Kocherlakota, 1996). Heightened salience of "economic perception" during inflationary episodes (Dewi et al., 2020; Olsen, 2010) has revived discussions on the extent to which, in light of certain technical insights, educational interventions are truly grasped by individuals or communities. Against this backdrop, the present study examines, in broad terms, whether "behaviours of individuals who act to counter inflation as their financial literacy develops" can be further improved through targeted educational design.

With respect to the anticipated influence of financial literacy on combating inflation (Belo et al., 2024; Mohyee et al., 2025), an increase in saving habits comes to the fore. Financially literate individuals learn how inflation affects purchasing power; consequently, they tend to

forgo excessive expectations of services that would generate demand pressure. Another expected effect is more informed investment decisions: acquiring basic and technical knowledge about money and capital markets is expected to facilitate more rational choices. It is also essential that financially literate individuals determine a safe debt level. In inflationary periods—irrespective of whether policy rates are high or low, and amid heightened uncertainty—they are expected to keep debts at prudent levels. Moreover, individuals who know when to engage in long-term debt–investment–income planning identify, in effect, their resistance thresholds against inflation (Morag, 1962); this, in turn, focuses their efforts on improving consumption habits. The creation of such resistance is thus a state that financially literate individuals must anticipate and prepare for.

If combating inflation is to yield tangible behavioural outcomes through financial literacy (Abdullayevich and Olimjon O'g'li, 2024), expected inputs and outputs can be summarised as follows. Inputs include (a) increased saving habits, (b) a reduction in unnecessary demand for goods and services, (c) a need for both foundational and technical knowledge in investment, and (d) the identification of a safe debt level. The output is the establishment of an income–expenditure balance that is resilient to inflation, together with an operative decision mechanism regarding the possible level of that balance. Using a multiple linear regression set-up to analyse the impact of each explanatory variable on the "inflation-resilient income–expenditure balance," the model can be specified as:

$$Y = \beta_0 + \beta_1 \cdot Saving\ habits + \beta_2 \cdot Unnecessary\ spending\ expectations + \beta_3 \cdot Investment\ knowledge + \beta_4 \cdot Safe\ debt\ level + \varepsilon$$

The foregoing model is easy to communicate and lends itself to survey implementation. The principal research problem, however, lies in whether improvements in financial literacy lead to: (i) saving habits that specifically help dampen inflation; (ii) a meaningful reduction in unnecessary spending expectations; (iii) an increased appetite for risky assets among individuals whose investment knowledge has grown; and (iv) failures to preserve safe debt levels and the reallocation of cheaper debt into commodity-type investments. The study aims to foster processes that support awareness among all stakeholders involved in the path towards disinflation—going beyond merely delivering financial literacy training and advancing to the next step without waiting for outcomes. At a general level, the expectation is to contribute to the development of investor behaviour for macroeconomic stability and to shed light on how individuals can help build resilient economic structures.

2. CONCEPTUAL BACKROUND

2.1 Financial Literacy And Its Positive Sides

Financial literacy is the ability to make informed financial decisions and to manage one's assets effectively. In relation to inflation, its positive effects include a more optimised income–expenditure balance, the capacity to safeguard assets against value erosion, and a reframed approach to saving habits. Individuals who can balance risk and return in their investment choices also acquire the competence to make informed decisions in household budgeting. When borrowing from financial institutions, they are more inclined to adopt risk-reducing behaviours and, from that point forward, better manage their perceptions of inflation. In essence, they become familiar with (i) the true causes and consequences of inflation; (ii) its short- and long-term effects; and (iii) how their own actions may reinforce or mitigate inflationary pressures. Thus, while planning for the long term, they are able to position short-term, hedonic

purchases more judiciously. Ultimately, they reassess consumption habits along the axes of quality, price, and quantity. By improving individually, citizens support the efforts and decisions of public institutions in sustaining macroeconomic stability, while simultaneously embedding their lives within a more informed investment and consumption trajectory.

2.2 Potential Downsides of Financial Literacy

Improvements in financial literacy do not necessarily yield uniformly positive outcomes, and the current circumstances in Türkiye (which partly motivate this study) arguably illustrate this. Among individuals whose financial literacy is rising—particularly younger cohorts supported by digital technologies and education—risk appetite has reached levels seldom seen in markets, as evidenced by the rapid entry into crypto assets and equity markets. It remains debated whether it is the consumption or investment undertaken under the expectation of rising inflation that raises inflation, or whether inflation—which is already rising—forces individuals to pay more in order to maintain living standards. Irrespective of stance, the mutual reinforcement of these causal pathways is evident. In standard economic reasoning, inflation is generated by supply–demand imbalances and can be further entrenched by behavioural dynamics. Moreover, in seeking to protect their wealth from inflation, individuals gravitate towards putatively protective assets. Price surges ensuing from such flows inflate asset values and create bubbles; when bubbles burst, the broader economy suffers. Heightened retail demand for financial products accelerates price increases, invites price dislocations in financial markets, complicates (and sometimes incentivises) speculation, and elevates manipulation risks. Conversely, if households shift strongly towards saving and curtail retail spending, demand may contract across sectors—including core sectors—potentially propagating supply-side problems.

The picture sketched above needs to be complemented with the rapidly evolving dynamics of social media and the associated herd behaviour. As financial decisions are increasingly shaped by social media content, influencer commentary, closed-group “tips,” and instantaneously shared charts, classical financial literacy must be accompanied by robust media literacy. The critical point here is that individuals often believe they are media literate, yet they misread the source, context, and underlying intent of the content they consume, which leads to a widespread practice of misinterpreted or misconceived media literacy.

On social media platforms, algorithms tend to promote eye-catching, extreme, and frequently get-rich-quick narratives. This environment accelerates the movement of young, tech-savvy and risk-seeking individuals into crypto assets, leveraged products, or short-term stock speculation. Individuals who think they have enhanced their financial literacy are in reality often making decisions based on a limited set of success stories, selectively presented charts, and anecdotal evidence. Instead of focusing on fundamental analysis, risk management, and long-term stability, they chase social approval and quick returns. As a result, when financial literacy is not integrated with media literacy, it may fail to strengthen rational decision-making; instead, it can become a driver of overconfidence, herd behaviour, and participation in speculative bubbles.

Misread media literacy leads people to treat every piece of data as “information,” every highly liked post as a “reliable source,” and every widely viewed video as an “expert opinion.” In this context, social media messages such as “this stock is about to skyrocket,” “you will regret missing this coin,” or “buy at this level and you will profit” are often accepted without critical scrutiny and trigger mass movements into specific assets. In such an environment, an individual’s knowledge of basic financial concepts (interest, inflation, volatility, risk–return trade-off, etc.) no longer functions as an adequate protective shield, because the true determinant

of behaviour becomes the intensity and frequency of social interactions rather than the depth of knowledge.

At the macro level, this dynamic amplifies existing market fragilities. Even minor news items or unverified rumours can spark waves of buy–sell orders within seconds, undermining price stability, distorting rational price formation, and complicating the task of regulators. Consequently, when financial literacy is not supported by sound media literacy, the intended "informed investor profile" is replaced by a faster, more aggressive, and more vulnerable investor base exposed to information noise. This brings us back to the initial debate: if financial literacy is expanded in isolation—without being carefully designed and integrated with media literacy—it may, instead of reinforcing economic stability, inflate bubbles and deepen crashes in the financial system.

2.3 The Case of Türkiye

In Türkiye, households have engaged—under various scenarios—in behaviours that complicate the fight against inflation. While structural reforms remain necessary to surface and expand the formal economy, periods of low interest rates in an inflationary environment encouraged excessive borrowing. Fearing higher future prices on basic goods, some households engaged in precautionary and excessive advance purchases, thereby contributing to sharp price increases in essentials. Public wage adjustments intended to foster a balanced save–spend profile increased the availability of Turkish lira liquidity, producing a paradox of "affordability at last," which, in turn, supported demand. There are also arguments that increased financial literacy can, for some, trigger a propensity to evade taxes and regulations or to transact informally, thus contributing to the shadow economy. Finally, the emergence of an investment culture not underpinned by production, alongside nominal rises in labour compensation, is viewed as a particularly distortionary outcome that amplifies inflationary pressure.

In Türkiye, households have, under various scenarios, engaged in behaviours that make the fight against inflation more difficult. While the need for structural reforms that would act as a driving force to put the economy on a sound footing is evident, an inflationary environment with low interest rates has encouraged excessive borrowing. At the same time, individuals fearing higher prices for basic food items have engaged in precautionary and excessive buying, thereby laying the groundwork for sharp increases in the prices of essential goods. Wage increases introduced by the state with the intention of fostering a more balanced spending–saving pattern have created an abundance of Turkish lira liquidity, giving rise to what might be called the "paradox of the newly affordable" – the notion that goods previously out of reach now appear purchasable. Moreover, there are views suggesting that rising financial literacy may also trigger a stronger urge to escape taxation and regulation, encourage transactions within the informal economy, and ultimately contribute to the expansion of the shadow economy. The emergence of an investment culture that is not supported by real production, combined with rising nominal compensation for labour, is seen as one of the most flawed outcomes in terms of intensifying inflationary pressures.

When social-media-driven herd behaviour is added to this picture, the irrational swings in both consumption and investment decisions become even more visible. Short videos, "investment tips," influencer commentary and rumours circulating in closed groups on social media platforms sharpen households' inflation perceptions, their expectations of future price increases, and the feeling of "if I don't buy today, tomorrow will be too late." Thus, the already fragile balance between saving and spending in an inflationary environment is fused with fear of missing out (FOMO), triggering unnecessary stockpiling, sudden shifts into foreign currency, gold or crypto assets, and abrupt spikes in retail demand.

In particular, young individuals who believe they are improving their financial literacy through social media often base their decisions on unverified information, carefully selected success stories and instant chart interpretations. This dynamic feeds both asset price bubbles and volatile demand patterns in basic consumption categories. In this context, financial literacy that is not complemented by media literacy may fail to strengthen rational spending and investment behaviour; instead, it can turn into a mechanism that normalises speculative tendencies, excessive risk appetite and herd psychology, thereby transforming the struggle against inflation into an even more complex challenge at both the micro and macro levels.

3. DATA AND METHOD

The study explores whether individuals residing in Kastamonu—whose baseline financial literacy levels were identified as low—can recognise where they stand on the spectrum between inflationary and disinflationary behaviour after their literacy has been improved. In brief, the steps were as follows: a participant group was selected; pre-training views on inflation were elicited; a role-based pedagogy was adopted; financial literacy training was delivered; post-training semi-structured interviews were conducted; codes were generated for qualitative analysis; inter-rater reliability was assessed with Cohen's kappa by two research assistants; in-person observation ensured that coding was performed on direct observations; and feedback was also obtained—subsequently disclosed and consented—from family members of participants to verify whether interviewees had been role-playing. The sample consisted of 20 residents of Kastamonu. Selection favoured individuals with weak financial knowledge (beyond everyday shopping) and with only hearsay familiarity with money and capital markets—mostly male—so as to avoid complicating the researchers' tasks. A 25-item screening test probing basic financial knowledge was administered; individuals scoring 50% or below were included. Participation relied on pre-existing rapport between researchers and participants.

Participants were assigned to four roles in sequence. Using role-based modelling to develop financial literacy and to test changes in perspectives on inflation and markets as literacy rose, participants were first given the "consumer" role, after which they adopted an "investor" role to receive further information. They then assumed the role of a shop owner or "entrepreneur," followed by a role representing the state, where non-partisan discussion of fiscal policy options against inflation was provided. Pre- and post-training questions were asked; this article reports results from the consumer and investor roles. Educational content was reinforced chiefly via persuasion techniques and repetition.

To test reliability, Cohen's kappa was computed for agreement between the two observers—Observer_1 and Observer_2—who independently coded responses of 20 participants on 10 questions. The results indicated $\kappa = 0.757$ ($p = 0.000$), implying "substantial agreement" ($0.61 \leq \kappa \leq 0.80$) between coders.

Symmetric Measures

		Value	Asymptotic Standardized Error[a]	Approximate T[b]	Approximate Significance
Measure of Agreement	Kappa	,757	,124	4,698	,000
N of Valid Cases		19			

a. Not assuming the null hypothesis.

b. Using the asymptotic standard error assuming the null hypothesis.

4. FINDINGS

Regarding perceptions of inflation and price increases, individuals appear to transition from "radical uncertainty" towards "as-rational-as-possible protection strategies." That is, while macroeconomic variables cannot be controlled, participants realised they could manage their own financial positions. In terms of percentage changes in saving and investment preferences, pre-training behaviour reflected risk aversion and a preference for safe-haven assets. Post-training, awareness of diversification increased and confidence in capital markets rose; training thus seems to have elevated the salience of portfolio diversification.

In consumption behaviour and expenditure planning, although price–quality considerations were present before training, the level of planned consumption was low. After training, the proportion of wholesale shopping rose to 60%. This shift indicates a rationalisation of consumer behaviour and heightened cost awareness: participants began to associate the mitigation of price increases with personal planning. Initially, there was no expectation that inflation would decline. Post-training, while views on the trajectory of inflation remained pessimistic, participants came to believe that the state alone could not curb price increases. This marks a move away from the notion of the state as an absolute saviour towards a stance emphasising shared responsibility.

On whether inflation is kept on the agenda deliberately by specific groups, participants initially answered "no," rejecting the idea of manipulative salience. After training, "yes" became the more common answer, indicating growing awareness of the political and media dimensions of economic discourse—i.e., rising levels of critical economic literacy. With respect to the distribution of responsibilities between the state and individuals, participants initially thought responsibility lay almost entirely with the state. Post-training, 80% stated that households are also responsible. This shift evidences stronger economic self-awareness and civic consciousness: individuals recognised their active agency. As to the relationship between interest rates and prices, 60% initially believed that lowering interest rates would reduce prices. Post-training, this ratio fell to 26%.

Table 1. Responses Before and After Training

Question/Prompt	Pre-Training Codes	Post-Training Codes
Is it possible not to be affected by price increases? How do you protect the value of your money?	Not possible (100%); Unsure 50%; Property/Land 50%	
Do you have savings? How do you evaluate them?	Yes (100%); Precious metals such as gold and silver (70%)	Gold 50%; Other capital market instruments 50%
Do you shop wholesale or in parts for your monthly groceries? Do you evaluate products by price–quality?	Partial 80%; Wholesale 20%; Price–Quality jointly considered	Partial 40%; Wholesale (to be tried) 60%; Price–Quality jointly considered
How do you think inflation will change in the coming months?	Inflation will not decline	Inflation will not decline
Does the state alone have the power to stop price increases? What should be done?	Yes	No
If you own a business (or hypothetically), how would you expect customer behaviour to change when prices rise?	They should refrain from buying the products	They should refrain from buying the products

Is inflation deliberately kept on the agenda?	No	Yes
How should household responsibility in inflation be assessed?	Responsibility mostly with the state	Responsibility with the state 20%; Responsibility with us 80%
What do you observe about the relationship between interest rates and price increases?	Rates should be reduced; goods/prices will fall (60%). Rates should be raised; goods/prices will fall (40%).	Rates should be reduced; goods/prices will fall (26%). Rates should be raised; goods/prices will fall (24%).
Are Turkish retail investors knowingly pushed into risky investments to protect value?	No	No (61%); Yes (39%)
How does inflation affect your daily decision-making? Can the adverse effects be reduced?	Adverse—hard to reduce	Adverse but reducible
How do media, your circle, or workplace shape your perception of inflation? How do you assess the accuracy of that information?	Adversely. From social-media accounts I follow and from market shopping.	Perception changed (40%); Unchanged (40%); Undecided (20%). Market shopping and social media.
How do you rate your ability to cope with uncertainty when thinking about inflation and livelihood?	Poor	Moderate (30%); Good (70%)

A notable share of participants (24%) stated that higher interest rates would reduce prices, suggesting an improved grasp of causality and policy transmission. Nevertheless, participants tended to view households' spending patterns as more salient for inflation outcomes than interest-rate movements per se. On risk-taking, participants initially believed that no one was being deliberately steered towards risky assets; post-training, 39% thought retail investors were indeed pushed into risk. This may reflect heightened awareness of market manipulation and fairness issues in capital markets. Pre-training, the dominant attitude to daily decision-making under inflation was "adverse and hard to reduce"; post-training, the view shifted to "adverse but reducible," signalling growth in problem-solving orientation. On media effects, the distribution of responses points to incipient gains in critical filtering, even as media influence remains strong. Finally, self-assessed ability to cope with uncertainty improved markedly: 70% "good," 30% "moderate," consistent with rising financial self-efficacy.

5. CONCLUSION

Taken together, the findings indicate that the education programme catalysed a shift from passive economic awareness to active financial agency; that individuals perceived more clearly the indirect impact of personal choices on macro outcomes; that the cognitive frame of behavioural economics gained ground, with inflation, interest, investment, and consumption no longer seen purely as exogenous forces but as aggregates of individual decisions; that deepening financial literacy encouraged diversification rather than single-instrument dependence and enabled a more rational assessment of the interest–inflation nexus; and that the strengthening of perceived psychological resilience laid the groundwork for a discourse of "reducibility" and better coping with financial stress. In the debate over whether developing adults' financial literacy forms a foundation for combating inflation, the present study's evidence points clearly to an affirmative conclusion.

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