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## Financial autonomy among emerging adults in Australia

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# **Financial autonomy among emerging adults in Australia\***

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## **Abstract**

This paper investigates how financial autonomy develops in young adults and under what circumstances that development process is hastened or hindered. The paper uses longitudinal data from the Household, Income, and Labour Dynamics in Australia (HILDA) survey for persons aged 15-25, thus following young people from the time they are adolescents and into adulthood. We develop a novel measure of financial autonomy based on an individual's degree of responsibility for household decision-making related to (a) managing day-to-day spending, (b) making large household purchases, and (c) savings and investments. Measuring financial autonomy allows us to observe a period of "emerging adulthood" as opposed to merely delaying nest-leaving due to cost-constraints (i.e. costs of living). If emerging adulthood plays an important role in young adults' development, we would expect to see steadily increasing levels of financial autonomy while the young adults are still at home. If on the other hand, delayed nest-leaving is only due to costs-constraints, we would not expect to observe such a period of systematic preparation for independent living. We estimate a correlated random-effects model for the latent financial autonomy construct, specifying a range of covariates related to individual demographic and resource characteristics, household characteristics, and regional factors. For men, there is a significant and positive age gradient associated with financial autonomy. There is no evidence of an age profile for young women whose level of financial autonomy is mostly explained by their household- and regional characteristics. This suggests that the phase of "emerging adulthood", in which financial autonomy is learned over time at home, plays an important role for young men but not for young women. This systematically puts young women at a potential disadvantage compared to young men, and consequently at a higher risk of low financial literacy and poor financial decision-making in the period after nest-leaving.

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