

A Micro-Analysis of Household Saving Behaviour in Albania

Ola Çami Gliozheni

Bank of Albania

ocami@bankofalbania.org

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Introduction

- The behavior of saving is of interest for policymakers : in macroeconomic terms savings represent an important source for financing investments, growth and smooth monetary transmission.
 - ▶ It is crucial for policymakers to understand saving dynamics at the micro level.
- Using the **Albanian Household Wealth Survey - AHWS**, this paper focuses on exploring the dimensions of the saving behavior of HH in Albania:
 - ▶ Who saves? - what determines the decision to save or not to save.
 - ▶ How they save?- saving instruments of choice.
 - ▶ Why they save?-saving motives.
with an emphasis on household heterogeneity in terms of *social* and *demographic* characteristics.

Why do HH save?

- **The theoretical literature argues on the following motives:**

- ▶ (1) Old Age Provision/Life-cycle ;
- ▶ (2) Precautionary savings ;
- ▶ (3) Bequest ;
- ▶ (4) Downpayment /Housing ;
- ▶ (5) Smooth the availability of resources over time

(Ando and Modigliani 1963; Modigliani and Brumberg 1954; Hubbard, Skinner, Zeldes 1995; Palumbo 1999; Hurd 1987; Lusardi 1996; Hayashi 1988; Leland 1968; Skinner 1988; Zeldes 1989 among others)

Why do HH save?

- **Empirical evidence has produced mixed results:**

- ▶ The precautionary saving motive has been linked to income risk.
(Skinner 1988; Guiso, Jappelli, and Terlizzese 1992)
- ▶ The saving motives change along the life-cycle.
(Schunk 2009)
- ▶ Few papers look at the coexistence of motives to save.
(Katona 1975; Horioka and Wantanabe 1997 among others)
- ▶ Heterogeneity in behavior among countries;
see Alessie, Lusardi and Aldershof 1997 for Holland; Lindqvist and Fjaestad 1978 for Sweden; Katona 1975 for the US; Horioka and Wantanabe 1997 for Japan and more)
and affected by insitutional and political environment.
(Poterba 1994; Casado et al. 2015)

Saving Behavior in CESEE

- Countries in the CESEE are characterized by high euroisation, high remittance inflows, underdeveloped capital markets, financial instruments are not widely used.
 - ▶ The saving rate in CESEE is low (Beckmann 2019).
 - ▶ Deposits are the preferred saving instrument (Revoltella and Mucci 2004) and HH prefer to hold cash (Stix 2012).
 - ▶ The determinants of saving are similar to the ones in other transition economies:
 - ★ saving changes along the life cycle (hump-shaped) (Lesckiewicz-Kedizor and Welfe 2012).
 - ★ education is important, employment is not (Denizer et al. 2002).
- No previous paper on saving motives and Albania.

Dataset

- The data are taken from the *Albanian Household Wealth Survey (AHWS)* which aims to gather data on the balance sheet components of individual Albanian households: assets, liabilities, saving, income; HH background and attitudes.
- The second wave of the survey was conducted in early 2021 by BoA and the National Institute of Statistics.
- Two-step probability sampling: HH are randomly selected at the Primary Sampling Unit (PSU). Each wave pools a representative sample of 2000 HH from the population.
- The survey refers to the Reference Person (RP).

Dependent Variables: Who saves?

From the AHWS we can construct three dummy measures of HH savings.

- **saving dummy**

The HH is asked: "Do you own current accounts that has a positive balance/ deposits/ saving accounts/pension funds/ bonds/index funds/ life insurance/ cash?"

1- the HH owns at least one financial instrument, 0- otherwise

- **self-reported saving dummy**

The HH is asked: "Do you save?"

1- the HH saves, 0- the HH does not save

- **combination of the two**

1- the HH owns at least one financial instrument or said that they save, 0- otherwise

Dependent Variables: How HH save?

Following Beckmann, Hake and Urvová (2013); Beckmann (2019) we construct the following variables:

- **formal**
1-HH own at least one formal saving instrument, 0-otherwise.
- **bank**
1-HH own at least one saving instrument in a bank, 0-otherwise.
- **cash only**
1-the HH owns only cash, 0-otherwise
- **more than 1 formal**
1-the HH owns more 1 formal saving instrument 0-otherwise.

Dependent Variables: Why HH save?

Descriptive Statistics

HH who save are asked their saving motives and to rank them based on importance from 1 to 11. Based on Le Blanc et al. (2016) we construct the following dummies:

| Variable | Description |
|---------------------------------|--|
| Saving Motives Dummies | |
| purchase home | 1- saves to purchase home; 0-otherwise |
| other major purchases | 1- saves for other major purchases; 0-otherwise |
| private business | 1- saves for investing in private business; 0-otherwise |
| invest in financial assets | 1- saves for investing in financial assets; 0-otherwise |
| pay off debt | 1- saves for paying off debt; 0-otherwise |
| old age | 1- saves for old age; 0-otherwise |
| education support | 1- saves for supporting offspring edu; 0-otherwise |
| provision for unexpected events | 1- saves as precaution; 0-otherwise |

- Here I do not discriminate on the ranking.

Saving behavior and HH heterogeneity

A consistent finding in the literature is that there is considerable heterogeneity in household saving behavior, a point that is emphasized by numerous authors.

- **Income and Wealth** have a positive relationship with the saving rate and have an impact on portfolio choices (as derived from LCH and PIH; Carroll 2002; Campbell 2006, among others).
- **Age** Portfolio allocations and motives change over the life cycle (Flavin and Yamashita 2002).
- **Gender** Significant differences in retirement savings and investment decisions by gender related to life expectancy (Bajtelsmit and Bernasek, 1996; Hinz, et al., 1996; Hungerford, 1999)
- **Education, Marital Status, Employment, Children in the HH**, all have important implications for the saving rate and saving portfolio. (Halko et al. 2011; Rooij et al. 2011; Xiao 2002)
- **Risk attitude** Very risk averse and risk loving diversify their portfolio less than intermediate risk HH. (Campbell et al. 2003; Borsch-Supan and Eymann 2000).

Independent Variables Descriptive Statistics

| Variable | Description | Baseline |
|-------------------|--|----------------|
| female | 1-RP is female,0- RP is male | |
| hh mem | 1-1mem; 2-2mem 3-3 or more mem | 3 or more mem |
| couple | 1-RP has a partner; 0-otherwise | |
| children less 6yo | 1-children less than 6yo in the HH 0- otherwise | |
| children more 6yo | 1-children more than 6yo in the HH 0- otherwise | |
| RP age | 1- less than 40yo; 2-40-55yo; 3- 55-70yo;4-more than 70yo | less than 40yo |
| RP edu | 1-primary;2-secondary;3-tertiary | primary |
| RP employment | 1-employed; 2- self emp; 3- retired; 4-unemployed | employed |
| net wealth | Q1-Q5 net wealth | Q1 wealth |
| net income | Q1-Q5 net annual income | Q1 income |
| risk attitude | 1-low risk; 2-mid risk; 3-high risk | mid risk |
| Tirana or Durres | 1- HH lives in Tirana or Durres, 0-otherwise | |

Econometric specification

- Probit model estimated based on robust error which cluster at the Primary Sampling Unit.
- Regressions are weighted using survey weights (Magee et al. (1998)).
- Marginal effects are estimated as the average of individual marginal effects.

Results: Who Saves?

| | self-reported saving (1) | saving instruments (2) | combination (1) or (2) |
|------------------|--------------------------|------------------------|------------------------|
| mid edu | 0.0664** (2.98) | 0.0597** (2.61) | 0.0675** (3.02) |
| high edu | 0.134*** (4.18) | 0.119*** (3.75) | 0.116*** (3.76) |
| retired | -0.0628* (-1.98) | -0.0632 (-1.92) | -0.0799* (-2.50) |
| unemployed | -0.125*** (-3.88) | -0.0510 (-1.68) | -0.148*** (-4.62) |
| low risk | -0.181*** (-6.36) | -0.243*** (-8.13) | -0.240*** (-9.09) |
| Q2 wealth | 0.154** (2.90) | 0.110* (2.36) | 0.142** (2.69) |
| Q3 wealth | 0.151** (2.92) | 0.133** (2.84) | 0.205*** (3.94) |
| Q4 wealth | 0.113* (2.29) | 0.152*** (3.35) | 0.186*** (3.72) |
| Q5 wealth | 0.114* (2.28) | 0.0715 (1.64) | 0.125* (2.45) |
| Q2 income | 0.145** (2.77) | 0.0992* (2.21) | 0.147** (2.63) |
| Q3 income | 0.187*** (3.65) | 0.106* (2.40) | 0.164** (2.95) |
| Q4 income | 0.150** (2.95) | 0.105* (2.38) | 0.115* (2.10) |
| Q5 income | 0.375*** (6.97) | 0.201*** (4.20) | 0.314*** (5.47) |
| Tirana or Durres | 0.0839** (2.76) | 0.0709* (2.19) | 0.0644* (2.24) |
| Pseudo R^2 | 0.107 | 0.102 | 0.121 |
| OTHER CONTROLS | YES | YES | YES |
| N | 1224 | 1224 | 1224 |

t statistics in parentheses

Other controls: RP age, RP employment, risk attitude, couple, hh members, children

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

- Robust coefficients on the impact of education on the saving rate.
- Being retired or unemployed, being risk-averse, living in Tirana or Durres and belonging to higher wealth and income quintiles affect saving rates.

Results: How do HH save?

| | formal | bank | cash only | > 1 formal saving instrument |
|----------------|---------------------|---------------------|---------------------|------------------------------|
| mid edu | 0.144*** (3.53) | 0.134*** (3.32) | -0.136** (-2.99) | 0.0692* (2.05) |
| high edu | 0.230*** (4.34) | 0.249*** (4.69) | -0.220** (-3.22) | 0.0954* (2.01) |
| low risk | -0.0853* (-2.04) | -0.0876* (-2.12) | 0.0941* (2.07) | -0.0768* (-2.08) |
| Pseudo R^2 | 0.109 | 0.109 | 0.132 | 0.112 |
| OTHER CONTROLS | YES | YES | YES | YES |
| N | 565 | 565 | 565 | 565 |

t statistics in parentheses

Other controls: RP sex, RP age, RP employment, risk attitude, hh members, wealth, income

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

- Robust coefficients on education.
- Risk averse HH save more in cash.
- Income and wealth not statistically sig.

Results: Why do HH Save?

| | purchase home | old age | unexpected | other major purch | edu support | invest fin assets | private bus | pay off debt |
|----------------|---------------------|----------------------|----------------------|---------------------|---------------------|---------------------|----------------------|---------------------|
| female | -0.00824 (-0.30) | 0.0138 (0.35) | -0.00507 (-0.20) | 0.00398 (0.11) | 0.113** (2.72) | -0.0765* (-2.28) | -0.0220 (-0.81) | 0.000198 (0.01) |
| 40-54yo | -0.0105 (-0.29) | 0.277*** (5.29) | 0.0797*** (3.66) | -0.0268 (-0.70) | 0.0148 (0.26) | 0.0399 (1.10) | -0.0185 (-0.43) | -0.0405 (-0.95) |
| 55-70yo | -0.0210 (-0.58) | 0.381*** (6.98) | 0.0911*** (4.61) | -0.00976 (-0.24) | -0.0808 (-1.36) | 0.00615 (0.16) | -0.0546 (-1.23) | -0.0571 (-1.27) |
| >70yo | -0.0365 (-0.78) | 0.414*** (5.89) | 0.0982** (2.91) | 0.0296 (0.48) | -0.117 (-1.56) | -0.0317 (-0.68) | -0.0940 (-1.88) | -0.118* (-2.28) |
| mid edu | -0.0215 (-0.98) | -0.0283 (-0.85) | -0.0229 (-1.06) | -0.00858 (-0.29) | 0.0742* (2.30) | -0.0233 (-1.07) | 0.0118 (0.54) | -0.0401 (-1.78) |
| high edu | 0.00452 (0.16) | -0.0284 (-0.70) | -0.0769** (-3.22) | -0.00358 (-0.09) | -0.00391 (-0.09) | -0.0269 (-0.96) | 0.0101 (0.34) | -0.0640* (-2.37) |
| children >6yo | 0.00823 (0.28) | -0.111* (-2.37) | -0.00706 (-0.25) | 0.0413 (1.11) | 0.135** (2.85) | -0.0415 (-1.33) | 0.00298 (0.10) | 0.0375 (1.16) |
| low risk | -0.0248 (-1.09) | -0.0942** (-2.75) | 0.0212 (0.93) | -0.0651* (-2.18) | -0.0106 (-0.28) | -0.0535* (-2.07) | -0.107*** (-3.78) | 0.0347 (1.55) |
| high risk | 0.0989* (2.51) | 0.0662 (1.60) | 0.0377 (0.95) | 0.0201 (0.44) | 0.109* (2.26) | 0.119** (2.83) | 0.0919* (2.06) | 0.161*** (4.08) |
| Q2 wealth | -0.00494 (-0.06) | 0.194 (1.88) | -0.125 (-1.41) | 0.00150 (0.02) | 0.00181 (0.02) | -0.0250 (-0.38) | 0.0708 (1.83) | -0.0422 (-0.51) |
| Q3 wealth | -0.00496 (-0.06) | 0.194 (1.90) | -0.121 (-1.37) | 0.00981 (0.10) | 0.0131 (0.12) | -0.0291 (-0.45) | 0.109** (2.82) | -0.0954 (-1.19) |
| Q4 wealth | -0.00306 (-0.04) | 0.0975 (0.95) | -0.111 (-1.26) | -0.0350 (-0.36) | 0.00636 (0.06) | 0.00612 (0.09) | 0.103** (2.65) | -0.0323 (-0.38) |
| Q5 wealth | -0.00638 (-0.08) | 0.154 (1.52) | -0.0755 (-0.85) | -0.00906 (-0.09) | 0.0193 (0.18) | -0.0155 (-0.23) | 0.126** (3.23) | -0.105 (-1.27) |
| Pseudo R^2 | 0.087 | 0.125 | 0.062 | 0.113 | 0.144 | 0.096 | 0.131 | 0.081 |
| OTHER CONTROLS | YES | YES | YES | YES | YES | YES | YES | YES |
| N | 505 | 505 | 505 | 505 | 505 | 505 | 505 | 505 |

t statistics in parentheses

Other controls: couple, hh mem, Tirana and Durres, income, RP edu, RP employment children under 6 yo

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Financial Literacy and Saving

- Education has a significant and robust effect on the saving decision and on the choice of saving instruments. **What about financial literacy?**
- The theoretical and empirical literature supports a **positive relationship** between financial literacy and saving.
 - ▶ Financial literacy affects the planning behavior (Lusardi and Mitchell 2006) and may discount the importance of saving (Angrisani et al. 2016).
 - ▶ Financial service preferences are affected by financial literacy (Servon and Kaestner 2008).
 - ▶ Financial literacy is predictive of liquid savings across the income distribution (Bhutta, Blair and Dettling 2021).

Financial Literacy and Saving

In the survey the HH are asked the **Lusardi and Mitchell (2011) "BIG 5" questions on financial literacy**. We construct the following dummy variables:

- **inflation literate**- "Imagine that the interest rate on your savings account was 1 percent per year and inflation was 2 percent per year. After 1 year, how much would you be able to buy with the money in this account ?"
1-correct; 0-incorrect.
- **interest literate**- "Suppose you had 100 dollars in a savings account and the interest rate was 2 percent per year. After 5 years, how much do you think you would have in the account if you left the money to grow?"
1-correct; 0-incorrect.
- **risk literate**- "Please tell me whether this statement is true or false. 'Buying a single company's stock usually provides a safer return than a mutual fund'." *1-correct; 0-incorrect.*
- **big 3 literate**- *1- all three of the above are correct; 0-otherwise.*
- **big 5 literate**- *1- all five are correct; 0-otherwise.*

Financial Literacy and Saving: Who saves?

| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
|-------------------------------------|--------------------|-------------------|--------------------|--------------------|-------------------|-----------------|-------------------|--------------------|
| | saving rate | saving rate | saving rate | saving rate | saving rate | saving rate | saving rate | saving rate |
| inflation literate | 0.159*** (4.35) | 0.105** (3.08) | | | | | | |
| interest rate literate | 0.0504 (0.78) | 0.0208 (0.34) | | | | | | |
| risk literate | 0.118*** (3.53) | 0.0793* (2.52) | | | | | | |
| fin literacy big 3 | | | 0.226*** (5.33) | 0.168*** (4.08) | | | | |
| fin literacy big 5 | | | | | 0.228** (2.76) | 0.127 (1.57) | | |
| inflation literate and high edu | | | | | | | 0.131 (1.52) | 0.0679 (0.86) |
| interest rate literate and high edu | | | | | | | 0.00407 (0.06) | -0.0449 (-0.67) |
| risk literate and high edu | | | | | | | 0.131 (1.74) | 0.0673 (0.95) |
| Pseudo R^2 | 0.027 | 0.119 | 0.018 | 0.121 | 0.005 | 0.108 | 0.009 | 0.101 |
| OTHER CONTROLS | NO | YES | NO | YES | NO | YES | NO | YES |
| N | 1224 | 1224 | 1224 | 1224 | 1224 | 1224 | 1224 | 1224 |

t statistics in parentheses

Other controls: RP sex, RP age couple, RP edu, hh members, children Tirana, wealth, income

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

- Being financially literate has a positive impact on the saving rate.

Financial Literacy and Saving: How do HH save?- Cash

| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
|-------------------------------------|----------------------|---------------------|--------------------|--------------------|--------------------|------------------|----------------------|---------------------|
| | cash only | cash only | cash only | cash only | cash only | cash only | cash only | cash only |
| inflation literate | -0.118** (-2.60) | -0.0906* (-2.22) | | | | | | |
| interest rate literate | -0.360*** (-3.33) | -0.291** (-2.94) | | | | | | |
| risk literate | 0.0150 (0.31) | 0.0349 (0.83) | | | | | | |
| fin literacy big 3 | | | -0.0840 (-1.49) | -0.0773 (-1.48) | | | | |
| fin literacy big 5 | | | | | -0.0596 (-0.50) | 0.0107 (0.11) | | |
| inflation literate and high edu | | | | | | | -0.0314 (-0.30) | 0.0201 (0.21) |
| interest rate literate and high edu | | | | | | | -0.349*** (-3.31) | -0.260** (-2.73) |
| risk literate and high edu | | | | | | | 0.108 (1.04) | 0.137 (1.44) |
| Pseudo R^2 | 0.027 | 0.152 | 0.003 | 0.135 | 0.001 | 0.132 | 0.042 | 0.147 |
| OTHER CONTROLS | NO | YES | NO | YES | NO | YES | NO | YES |
| N | 572 | 572 | 572 | 572 | 572 | 572 | 572 | 572 |

t statistics in parentheses

Other controls: RP sex, RP age, couple, RP edu, hh members, children, Tirana or Durrës, wealth, income

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

- Being interest literate has a negative impact on saving only in cash.

Financial Literacy and Saving: How do HH save?-Bank

| | (1) bank | (2) bank | (3) bank | (4) bank | (5) bank | (6) bank | (7) bank | (8) bank |
|-------------------------------------|---------------------|--------------------|------------------|------------------|------------------|---------------------|--------------------|--------------------|
| inflation literate | 0.104* (2.24) | 0.0738 (1.79) | | | | | | |
| interest rate literate | 0.351** (3.24) | 0.277** (2.79) | | | | | | |
| risk literate | -0.00460 (-0.09) | -0.0242 (-0.57) | | | | | | |
| fin literacy big 3 | | | 0.0761 (1.40) | 0.0682 (1.35) | | | | |
| fin literacy big 5 | | | | | 0.0690 (0.58) | -0.00208 (-0.02) | | |
| inflation literate and high edu | | | | | | | 0.0526 (0.52) | 0.00187 (0.02) |
| interest rate literate and high edu | | | | | | | 0.320** (3.20) | 0.226* (2.38) |
| risk literate and high edu | | | | | | | -0.0768 (-0.76) | -0.0990 (-1.04) |
| Pseudo R^2 | 0.027 | 0.152 | 0.003 | 0.135 | 0.001 | 0.132 | 0.042 | 0.147 |
| OTHER CONTROLS | NO | YES | NO | YES | NO | YES | NO | YES |
| N | 572 | 572 | 572 | 572 | 572 | 572 | 572 | 572 |

t statistics in parentheses

Other controls: RP sex, RP age, couple, RP edu, hh members, children, Tirana or Durres, wealth, income

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

- Being interest literate has a positive impact on saving in deposits and saving accounts.

Conclusions and Policy Implications

Using the AHWS, this paper tries to explain the drivers of saving decision and portfolio choices of HH in Albania.

The results suggest that:

- saving changes along the life-cycle: the young are particularly vulnerable to income shocks.
- saving rate is a function of income and wealth.
- education and financial literacy play a crucial role in the decision to save and portfolio choices.

Education and financial literacy in Albania play a crucial role in the decision to save at all and to formally save. Policies that tackle educating the young might have a direct impact in the saving rate and consequently in the efficiency of the transmission of monetary policy.

Thank you for your attention!

Descriptive Statistics: Dependent Variables

| | mean | sd | min | max |
|---------------------------------|----------|----------|-----|-----|
| saving dummy | .435797 | .4960635 | 0 | 1 |
| proxy 1 saving | .4727584 | .4994614 | 0 | 1 |
| proxy 2 saving | .6631894 | .4728127 | 0 | 1 |
| formal | .4759818 | .4998599 | 0 | 1 |
| bank savings | .4642309 | .4991554 | 0 | 1 |
| cash only | .5240182 | .4998599 | 0 | 1 |
| more 1 formal | .2661603 | .4423359 | 0 | 1 |
| purchase home | .1391394 | .3464351 | 0 | 1 |
| other major purchases | .2877486 | .4531622 | 0 | 1 |
| private business | .1823468 | .3865129 | 0 | 1 |
| invest in financial assets | .189616 | .3923858 | 0 | 1 |
| pay off debt | .1488255 | .3562693 | 0 | 1 |
| old age | .6116762 | .4878522 | 0 | 1 |
| education support | .4901319 | .5003983 | 0 | 1 |
| provision for unexpected events | .1083641 | .3111479 | 0 | 1 |

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Descriptive Statistics: Independent Variables

| | mean | sd | min | max |
|---------------------|----------|----------|----------|----------|
| female | .1972164 | .3979684 | 0 | 1 |
| RP age | 55.45525 | 13.00518 | 20 | 87 |
| primary edu | .5129112 | .4999229 | 0 | 1 |
| secondary edu | .324002 | .4680846 | 0 | 1 |
| tertiary edu | .1630868 | .3695111 | 0 | 1 |
| employed | .3275601 | .4694076 | 0 | 1 |
| self-employed | .2183791 | .4132201 | 0 | 1 |
| retired | .2948729 | .4560673 | 0 | 1 |
| unemployed | .1589783 | .3657214 | 0 | 1 |
| hh members | 1.313391 | .5713804 | 1 | 3 |
| children less 6yo | .0480637 | .2139391 | 0 | 1 |
| children more 6yo | .1408591 | .3479385 | 0 | 1 |
| risk attitude | 2.543817 | .7190918 | 1 | 3 |
| hh net wealth | 3.24e+07 | 4.17e+07 | -9500000 | 1.00e+08 |
| hh total annual inc | 857325.5 | 630078.9 | 24000 | 7200000 |
| Tirana or Durres | .4226837 | .3675962 | 0 | 1 |

Lusardi and Mitchell "Big 5" of financial literacy

- 1) Suppose you had 100 dollars in a savings account and the interest rate was 2 percent per year. After 5 years, how much do you think you would have in the account if you left the money to grow? **(BIG 3)**
- 2) Imagine that the interest rate on your savings account was 1 percent per year and inflation was 2 percent per year. After 1 year, how much would you be able to buy with the money in this account? **(BIG 3)**
- 3) If interest rates rise, what will typically happen to bond prices? **(BIG 5)**
- 4) A 15-year mortgage typically requires higher monthly payments than a 30-year mortgage, but the total interest paid over the life of the loan will be less. **(BIG 5)**
- 5) Buying a single company's stock usually provides a safer return than a stock and a government bond. **(BIG 3)**

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