

Why are Gambling Markets Organised so Differently from Financial Markets?

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Abstract

The market for sports gambling is structured very differently from the typical financial market. In sports betting, bookmakers announce a price, after which adjustments are small and infrequent. Bookmakers do not play the traditional role of market makers matching buyers and sellers but, rather, take large positions with respect to the outcome of game. Using a unique data set, I demonstrate that this peculiar price-setting mechanism allows bookmakers to achieve substantially higher profits. Bookmakers are more skilled at predicting the outcomes of games than bettors and systematically exploit bettor biases by choosing prices that deviate from the market clearing price.

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