Anomalies: The Law of One Price in Financial Markets

Owen A. Lamont

Richard H. Thaler

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Abstract

The Law of One price states that identical goods (or securities) should sell for identical prices. In financial markets the law of one price is thought to hold almost exactly, and is the basis for much of financial economic theory. We present evidence on several examples of violations of this law, including closed-end country funds, twin shares, dual class shares, and corporate spinoffs. We analyze the causes of these violations, and show they all stem from some limits on the extent to which rational arbitrageurs can intervene.

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