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Anomalies: The Law of One Price in Financial Markets

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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 discuss the implications for the system from some limits on the extent to which rational arbitrageurs

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