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Market efficiency and continuous information arrival: evidence from prediction markets

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odds in the market on that outcome. In addition, economically and statistically significant evidence of momentum is found in the odds in the market on the Cup result.

Keywords:

market efficiency prediction markets informational arrival

JEL Classification::

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We thank Betfair Ltd for making this study possible by providing us with the complete transaction file of all trading that occurred in the prediction markets for the 2008 Ryder Cup.

Notes

where P

overall (

X ¹Over v 90; Lehman asurement problem short horizon ² The tin bustness of the resu pm (the al pairing). tee-q The re ³ For exa y be calculate

for a win to Europe and ODDS_{TIE} is the overall Cup market odds for a tied outcome.

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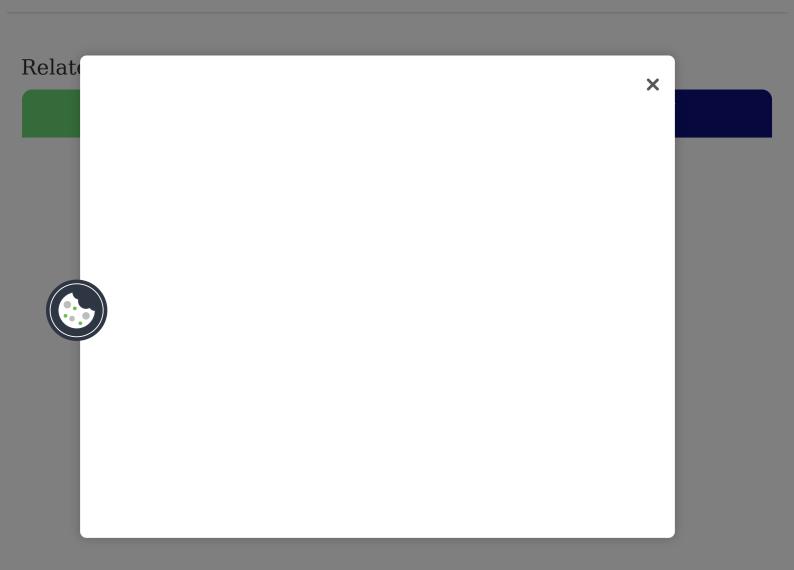
Dividing by the sum of the reciprocal of the odds ensures that the implied probabilities of the three outcomes (US win, European win and tie) sum to unity. For a detailed discussion of this approach see, for example, Wolfers and Zitzewitz (2006).

⁴ These tests and all subsequent tests reported in this article were also undertaken for the probabilities of Europe winning the competition and for the probabilities of a tie. These results are substantively the same as those for the US and for the sake of brevity are not reported.

⁵ For more information regarding FPE and AIC, see Hsaio (<u>1981</u>) and Akaike (<u>1974</u>), respectively. The formulae used to determined the optimal lag length according to each search criteria may be specified as follows:

where T is the sample size, n the lag-length being tested and SSR is the sum of squared residuals.

⁶ As noted in footnote 2, this result is not attributable to bid-ask spreads or other measurement problems – problems that result in negative autocorrelation.



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