What can bookies teach us about pari-mutuel wagering reform? Applying Australian lessons to the U.S.*

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Abstract

We consider a policy reform relaxing price controls in American pari-mutuel wagering on horse racing by examining bookie behavior in Australia’s fixed-odds gambling sector. Descriptive regressions indicate that bookie takeouts (the effective prices of races) vary substantially and systematically with race characteristics, though in sometimes counterintuitive ways. Estimates of an explicitly reduced form model of bookie takeout, however, qualitatively match both intuition and prior findings in the literature. Calibration using these estimates suggests that regulatory reform that permits racetracks to alter takeout across races would increase variable profit by 3-6%.

Keywords: regulatory reform, gambling, horse racing

JEL codes: C22, L5, L83

Markets all over the world are subject to strict price regulation, and deregulation in those areas could presumably increase welfare markedly. Unfortunately, the stringent regulations themselves often prevent the observable variation that would permit empirical analysis to gauge the potential welfare benefits from deregulation. One such example is American pari-mutuel wagering on horse racing. This gambling, in which the racetrack takes a percentage of money wagered (the take-out rate or takeout) and then returns the remainder to winning bettors, is regulated at the state level and typically involves the takeout being set at a particular level for different types of wagers. There have been several recent attempts to learn the responsiveness of bettors to this takeout rate with temporary (Laurel Park, MD, 2007) or

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