The House Doesn’t Always Win: Evidence of Anchoring among Australian Bookies*

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Abstract

We examine Australian horseracing bookmakers’ responses to late scratches, instances in which a horse is abruptly withdrawn after betting has commenced. Our observed bookies exhibit anchoring on the original odds and fail to re-adjust odds fully on the remaining horses after a scratch, thereby earning lower profit margins and occasionally creating nominal arbitrage opportunities for bettors. We also examine which horses’ odds bookies adjust after a scratch and demonstrate diminished profit margins even after controlling for these endogenous adjustments. Our results indicate that bookies’ adjustments recover approximately 80% of lost profit margin but that bookies forgo the remaining 20% due to systematic under-adjustments.

Keywords: Anchoring bias, behavioral economics, fixed-odds wagering, natural experiment

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