Marketing Colloquia
2020 Spring – Schedule

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WEDNESDAY, March 25, 2020
741 JMHH
12:00 PM to 1:20 PM

PARALLAX AND TAX

ABSTRACT: Common valuations pose an obstacle to trade and, hence, an existential threat to brokers, who profit from taxing trade. We write down a model in which a broker drives a wedge between valuations by deceiving gullible traders. Separate valuations facilitate arbitrage, and arbitrage generates brokerage fees. We then show that this process, which we call parallax and tax, explains a classic case of market inefficiency: the favorite-longshot bias in horserace parimutuel markets.

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