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A Favorite-Longshot Bias in Fixed-Odds Betting Markets: Evidence from College Basketball and College Football

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Highlights

We provide the first clear evidence of the favorite-longshot bias existing in fixed-odds money line betting markets

We document that betting on heavy favorites in both markets yields the best strategy to exploit the favorite-longshot bias documented for both sports with an average return close to zero

While betting on heavy favorites offers a near zero return over several years, this evidence suggests that these two betting markets are efficient within transaction costs

Abstract

This paper provides empirical evidence that the favorite-longshot bias persists in money-line betting markets of both college basketball and college football. This is the first clear evidence of the favorite-longshot bias existing in fixed-odds money-line betting markets in the US, as the reverse favorite-longshot bias has been documented in professional baseball and hockey money-line and in US sports sides-line markets. We also document that betting on heavy favorites in both of these markets yields an average return close to zero, suggesting this strategy removes the negative expected return created by the bookmaker's commission. This "break even" betting strategy persisted in both sports over the sample period. Thus, the evidence suggests that these two betting markets are efficient within transaction costs.

JEL Classifications: D81, L83

Keywords: Favorite-Longshot bias, sports betting, market efficiency

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