John Wesley Powell Student Research Conference

2003, 14th Annual JWP Conference

Apr 12th, 1:15 PM - 2:15 PM

Macroeconomic Effects on the Horse Race Betting Market

Kristin Smevold
Illinois Wesleyan University

Ilaria Ossella-Durbal, Faculty Advisor
Illinois Wesleyan University

Poster Presentation P38

MACROECONOMIC EFFECTS ON THE HORSE RACE BETTING MARKET

Kristin Smevold and Ilaria Durbal*
Department of Economics, Illinois Wesleyan University

There are many similarities between the market for horse race betting and the stock market. Some of these similarities include a large number of participants, complete ease and entry into the market, and extensive market knowledge. Both markets also operate under conditions of risk and uncertainty. Previous research has shown that the stock market responds to macroeconomic indicators. Due to the similarities between the stock market and the market for horse race betting, I hypothesize that the market for horse race betting also responds to macroeconomic indicators. Based on the wealth effect, an increase in wealth represented through improving macroeconomic conditions should cause individuals to consume more, in this case on horse race wagering. I look at total United States horse race wagering and GDP figures, as well as Illinois and California's GSP, unemployment rate and horse race wagering totals. To test the hypothesis, I run a correlation between GDP and wagering totals and run a linear regression for Illinois and California using horse race wagering figures as my dependent variable and state GSP and unemployment for my independent variables. The results show a positive relationship between wagering totals and GSP and a negative relationship between wagering totals and unemployment. Though the results vary in the level of significance, they imply that macroeconomic indicators affect the market for horse race betting. Positive macroeconomic announcements increase the demand for horse race betting and negative macroeconomic announcements decrease the demand for horse race betting.