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THE ECONOMIC RATIONALE OF A MULTI-STATE LOTTO

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State lotteries have existed in their modern form in America since 1963. Multi-state lotto games, however, are a relatively recent product development. This study seeks to explain how a multi-state lotto fits into a state’s portfolio of lottery products. Past research has never focused specifically on what makes offering a multi-state product attractive from the state’s perspective.

In order to economically rationalize this new product the author first develops a model of the consumer under risk, employing the Friedman-Savage utility model as a starting point. Using this model as well as past empirical findings, the author generates a number of specific hypotheses regarding what affects demand for a lotto. Standard regression analysis with data points from across the United States on both a single- and multi-state level allows the construction of a demand function for lotto products. The author then uses the estimated function to predict the future revenues of Illinois' lotto products as well as examine the state's decision to participate in the recently-commenced multi-state lotto known as “The Big Game.”