



## **FOOTBALL BETTING AND BEHAVIORAL ECONOMICS: A NOTE**

**Ladd Kochman, David Bray & Luc Noiset**

*Department of Economics, Finance, and Quantitative Analysis, Coles College of Business,  
Kennesaw State University, Kennesaw, GA, 30144, USA. E-mail: [lnoiset@kennesaw.edu](mailto:lnoiset@kennesaw.edu)*

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**Abstract:** The strategy of oddsmakers to alter point spreads that capitalize on bettors' preference for popular teams not only dooms regular profits for gamblers but also provides a clear example of imperfect decision-making for behavioral economists. The fear of regret suggests that bettors gravitate toward popular teams since any losses would not be peculiar to them. The implication that spreads on popular college teams would be inflated to balance bets and, in turn, create profit opportunities when betting against popular teams proved faulty.

**Keywords:** Behavioral Finance • Gambling • Popularity bias • Market inefficiency

**JEL Classification:** D80 • G40 • G41

## **1. BACKGROUND**

Despite roots in the 18<sup>th</sup> century when thinkers became interested in the psychological underpinnings of economic life, behavioral economics is still searching for real-world settings of irrational decision-making. Contrary to rational choice theory (Becker, 1976, and others), behavioral economics argues that people make systematic suboptimal decisions owing to impediments such as overconfidence, optimism, extrapolation, and fear. Notwithstanding the efforts of Kahneman and Tversky (1985, 1992, 2013), who identified behavior patterns not consistent with the rational choice model, acceptance of non-rational behavior by economists remains elusive.

The hunt for examples of less-than-rational decision-making has trickled into the sports betting market, where mistaken beliefs by some have translated into regular profits for others. Fodor *et al.* (2013) followed the success of wagers in the first game of the season placed on teams in the National Football League (NFL) that had qualified for the playoffs in the previous year. The strategy produced a wins-to-bets ratio of 35.6 percent over the

2004-2012 seasons that translated into a rewarding ratio of 64.4 percent when betting against those teams. The authors reasoned that losing bettors had clung to perceptions previously formed, which compelled oddsmakers to inflate point spreads to those bettors' disadvantage.

Bennett (2019) provided another example of the so-called "holdover bias." He reported that betting against those college teams in the first game of the year that had been ranked in the past season's Associated Press Top 25 poll for the 2008-2016 seasons won at a rate greater than the breakeven mark of 52.4 percent when betting \$11-to-win-\$10. He argued that the inefficiency of what should otherwise be an efficient market was attributable to the backward-looking of bettors and the inevitable adjustment of point spreads. Kochman (2000) investigated the wins-to-bets (W/B) ratio of NFL Super Bowl winners in the year following their titles over the 1987-1997 period. Assuming perceptions about those clubs were unchanged and point spreads might reflect a holdover bias, he showed that bets on the opponents over the first five games of the new season also earned above normal returns.

Kochman and Goodwin (K&G, 2007) focused on another obstacle to rational thinking: fear of regret. Behaviorists have argued that investors choose stocks that are popular in order to take the fear out of making bad investments. Investors could find some comfort in knowing that losses from popular stocks would not be peculiar to them. K&G used Pankoff's (1968) investor-bettor analogy to argue that bettors would disproportionately place wagers on popular teams in the NFL in order to escape the feeling that they would be the only losers. Oddsmakers, in turn, would inflate point spreads on those teams for the purpose of balancing bets and thereby create profit opportunities for those betting on the opponents of popular teams.

Testing the hypothesis that bets against popular teams produce above-average returns necessitates identifying teams that are popular. Kochman and Waples (K&W, 1998) undertook the challenge with college football. They based their designations on (1) the amount of information disseminated about individual schools by television, radio and newspapers, (2) the program's image as a winner or loser apart from any success or lack of it against the point spread and (3) the reputation of the coach and former players. When K&W placed imaginary bets on the opponents of the 20 college teams which they had judged most popular, a wins-to-bets ratio of 47.7 percent (or 1201 out of 2518) surfaced over the 1985-1995 seasons. Kochman and Goodwin (2004) used the Internet and newsstand publications to identify the 15 most popular college football teams during the 1996-2002 years and again found that wagers against the most popular teams failed to reward bettors. A total of 1187 bets spawned 592 winners and a W/B ratio of 49.9 percent.

## **2. METHODOLOGY**

Our belief that K&G's 15 most popular college football teams<sup>1</sup> remained most popular during the 2010-2019 seasons encouraged us to collect their respective wins and losses against the spread and to again test the hypothesis that opponents of popular teams beat the

spread at a profitable rate. Nine of those schools so regarded achieved W/B ratios less than 50 percent. Individual ratios ranged from 55.5 percent (Alabama) to 43.4 percent (Tennessee). The source of our data was Marc Lawrence's Playbook.

### 3. RESULTS

A total of 1837 imaginary wagers produced 908 wins against the spread when betting on the opponents of the 15 college teams considered most popular. The W/B ratio of 49.4 percent tends to confirm the results of previously cited studies that popular teams lose to no profitable extent. The explanation may be that oddsmakers do not balance bets. They choose instead, according to Levitt (2004), to skew betting lines to bettors' biases to reap returns greater than those earned from balanced bets. The existence of those biases would seem to make this study's contribution to the literature less about gamblers beating the market and more about people making imperfect decisions.

#### *Note*

1. Alabama, Auburn, Florida, Florida State, Miami, Michigan, Nebraska, Notre Dame, Ohio State, Oklahoma, Penn State, Southern California, Tennessee, Texas and UCLA.

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