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Prediction market prices under risk aversion and heterogeneous beliefs

Xue-Zhong He, Nicolas Treich

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Highlights of paper

"Prediction market prices under risk aversion and heterogeneous beliefs"

- Characterizes binary prediction market bias when risk averse traders have heterogeneous beliefs in probabilities
- The equilibrium state prices equal the mean beliefs of the states if and only if the utility function is logarithmic
- Provide a necessary and sufficient condition for prediction market that the state prices are systematically below or above the mean beliefs of the state
- Provide a rational explanation to the favorite-longshot bias