

State Lotteries: Substitutes or Complements?

In recent years, many states have turned to lotteries as a source of revenue. To explain the relation among different state lotteries, M. Stover examined the characteristics of the demand for lotteries. Earlier it had been hypothesized that mature lotteries are substitutes for one another. Stover pointed out that the demand for a state lottery also includes the population along the borders of neighboring states. His findings included a number of interesting results on so-called "instant-win lotteries." First, such lotteries are normal goods; more lottery tickets are purchased as consumer income rises. Second, the demand for lotteries is positively influenced by advertising.

The most interesting aspect of Stover's study is his finding that lotteries in neighboring states

are substitutes for a state's own instant-win lottery. Knowledge of this fact is of practical use to, say, the comptroller for the treasury of Florida, who must determine the expected revenues derived from Florida's instant-win game. A reduction in the price of lottery tickets in neighboring states would lead to a reduction in demand for Florida's lotteries and a corresponding decrease in Florida's lottery revenues.

Sources: M. Stover, "Contiguous State Lotteries: Substitutes or Complements?" *Journal of Policy Analysis and Management* 9 (Fall 1990), pp. 565-68; J. Mikesell, "The Effect of Maturity and Competition on State Lottery Markets," *Journal of Policy Analysis and Management* 6 (Winter 1987), pp. 251-53; J. Mikesell and K. Zorn, "State Lottery Sales: Separating the Influence of Markets and Game Structure," *Growth and Change* 18 (Fall 1987), pp. 10-19; D. Vrooman, "An Economic Analysis of the New York State Lottery," *National Tax Journal* 29 (December 1976), pp. 482-89.