

Prediction Markets: Do They Work?

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1. What are prediction markets?
2. Who is using them?
3. How did they work this time?
4. What did we learn?



In the television game show “Who Wants to be a Millionaire,” when the contestant gets stuck, they have three lifelines:

- » **50/50**
eliminate two of the four answers
- » **Phone a friend**
call whoever you want to get help
- » **Ask the audience**
use the highest percentage answer from the audience



Among the three lifelines, “Ask the audience” is the most popular for its uncanny accuracy.

Using a prediction market is like “asking the audience.”

- » The audience can be your own employees, customers, and business partners.

Prediction markets enable a group of people to predict the probability of an answer being correct or an event occurring.

Businesses and governments are using prediction markets to reduce risk and enable proactive decisions.

Specifically prediction markets are being used:

- » As an early warning indicator of looming risks
- » As input for strategic decisions
- » As a filter to test the viability of new ideas

- » **Government of Singapore** is using prediction markets for long term technology forecasting, predicting large government contract awards, and predicting government performance metrics.
- » **Wells Fargo** is using prediction markets to make more informed and non-biased decisions about which new ideas the business should implement
- » **Electronic Arts** is predicting industry quality scores of all their products and their competitor's products
- » **General Mills** is forecasting the impacts of marketing campaigns on product sales
- » **Procter & Gamble** is performing competitive analysis and predicting the success of internal cost saving programs
- » **AMC Theaters** is piloting prediction markets to forecast the performance of movies across their chains

Why ask?

- » Under-utilization of institutional knowledge
 - Opinions about issues relevant to performance is rarely sought from lower level managers or field employees despite their frequent contact with customers
- » Lack of transparency
 - In-fighting or lack of communication between organizations often masks reality
 - Culture discourages revelation of bad news
- » Many of us are smarter than one of us

We used the prediction market to find out:

- » How many Atlantic storms will NOAA have named by Nov 2nd?
- » Which candidate will talk about Web 2.0 first?
- » What time will we know who won the Presidential election?

And, STILL OPEN . . .

- » How long will NASA and the science agencies be under a CR?
- » Will 2008 end up being one of the 5 hottest years on record?

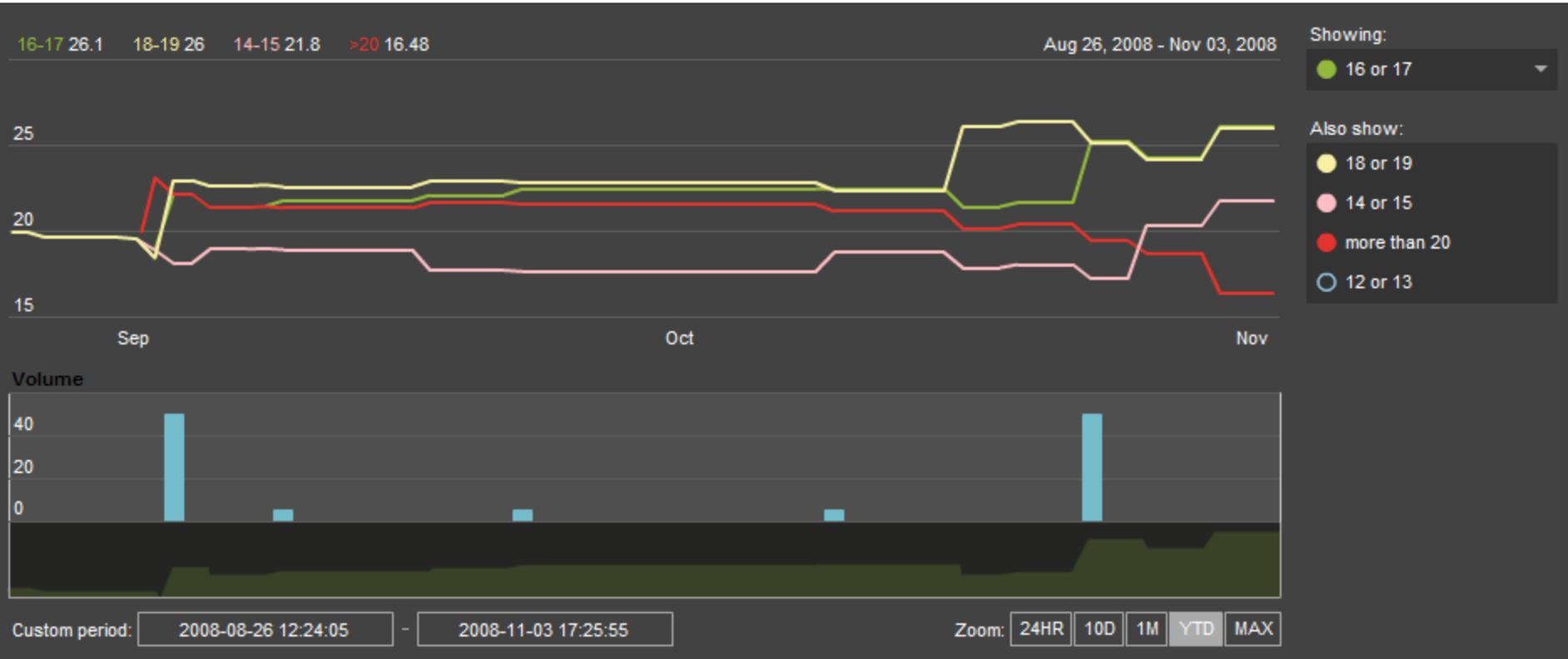
Your Predictions: Hurricane Season

How many Atlantic storms will NOAA have named by Nov 2nd

Answer	Stock Price
➤20	\$16.48
18 or 19	\$26.00
16 or 17	\$26.10
14 or 15	\$21.80
12 or 13	\$9.61

**NOAA said 85% chance of “normal to above normal” (14-18).
20 trades predicted more.
This should have gone to zero on or before 12 October (Nana)**

Correct answer: 15 (Tropical Storm Omar, 14 Oct)



How many Atlantic storms will NOAA have named by Nov 2nd?

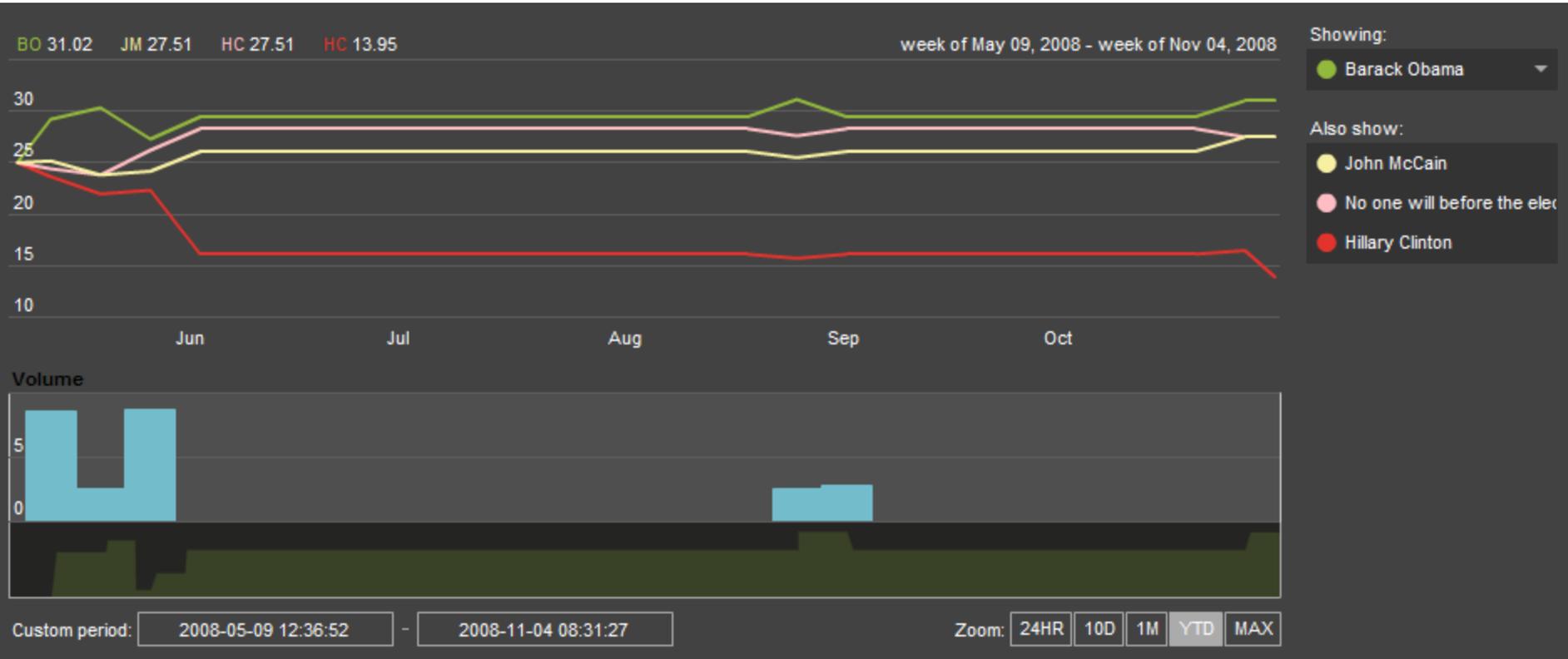
Your Predictions: Web 2.0 Speech

Which candidate will first make a speech where Web 2.0 is a major theme?

Answer	Stock Price
Barack	\$31.02
Hillary	\$13.95
John	\$27.51
No One	\$27.51

13 Trades – Barack leading
High standard to meet . . .

Correct answer: No One



Which candidate will talk about Web 2.0 first?

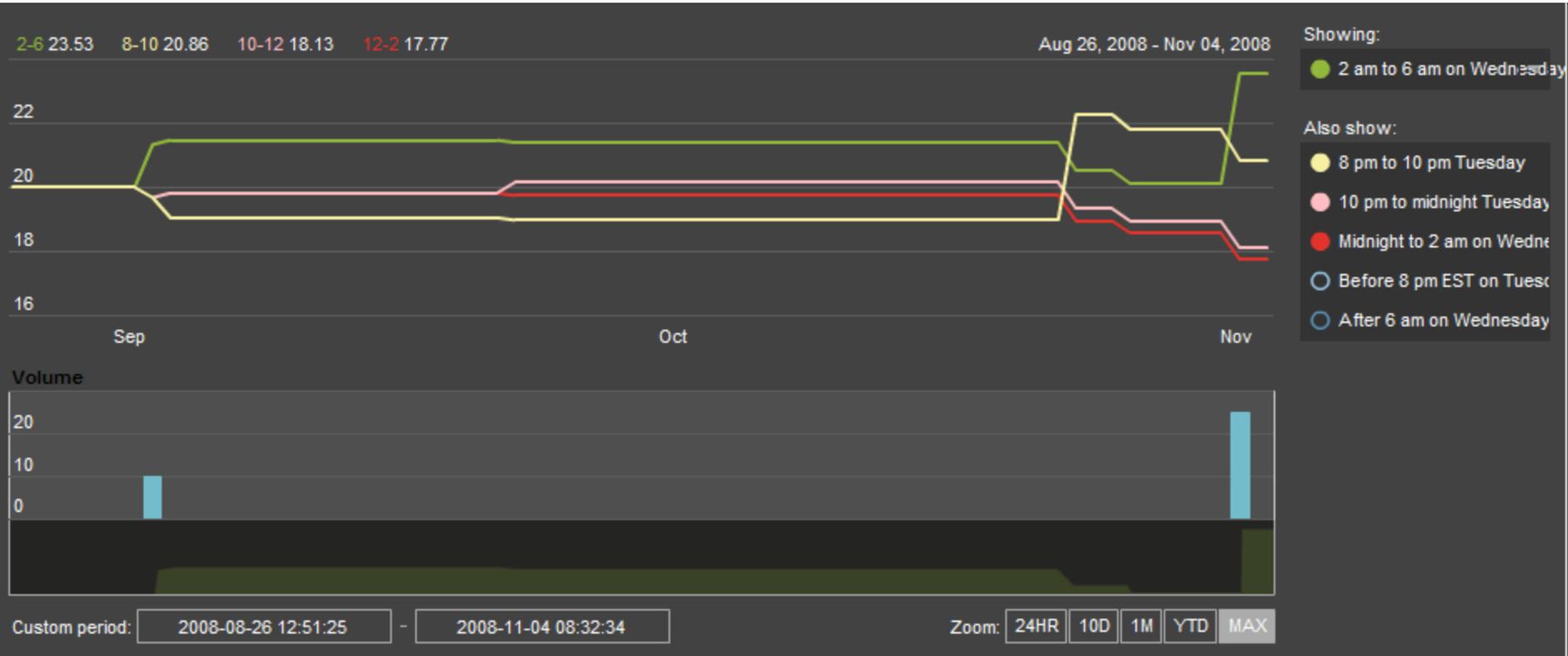
Your Predictions: Election Outcome Timing

When will CNN make the call?

Answer	Stock Price
Before 8 pm	\$10.82
8 to 10 pm	\$20.86
10 to midnight	\$18.13
Midnight to 2	\$17.77
2 am to 6 am	\$23.53
After 6 am	\$8.86

6 Trades – average = 12:25 am

Correct answer: 11 pm



What time will we know who won the Presidential election on November 4th?

Previous Results

Question	Trades	Prediction	Result
Price of Gas on June 2	14	~\$4.00	\$3.98 ●
Dem Pres Nomination Decided Before June 3	23	71 % No	No ●
Supplemental Iraq Funding Approved Before June 3	9	60% No	No ●
FY 08 IT Budget	17	\$71.3 B	\$65.0 B ●

Questions still open . . . closing

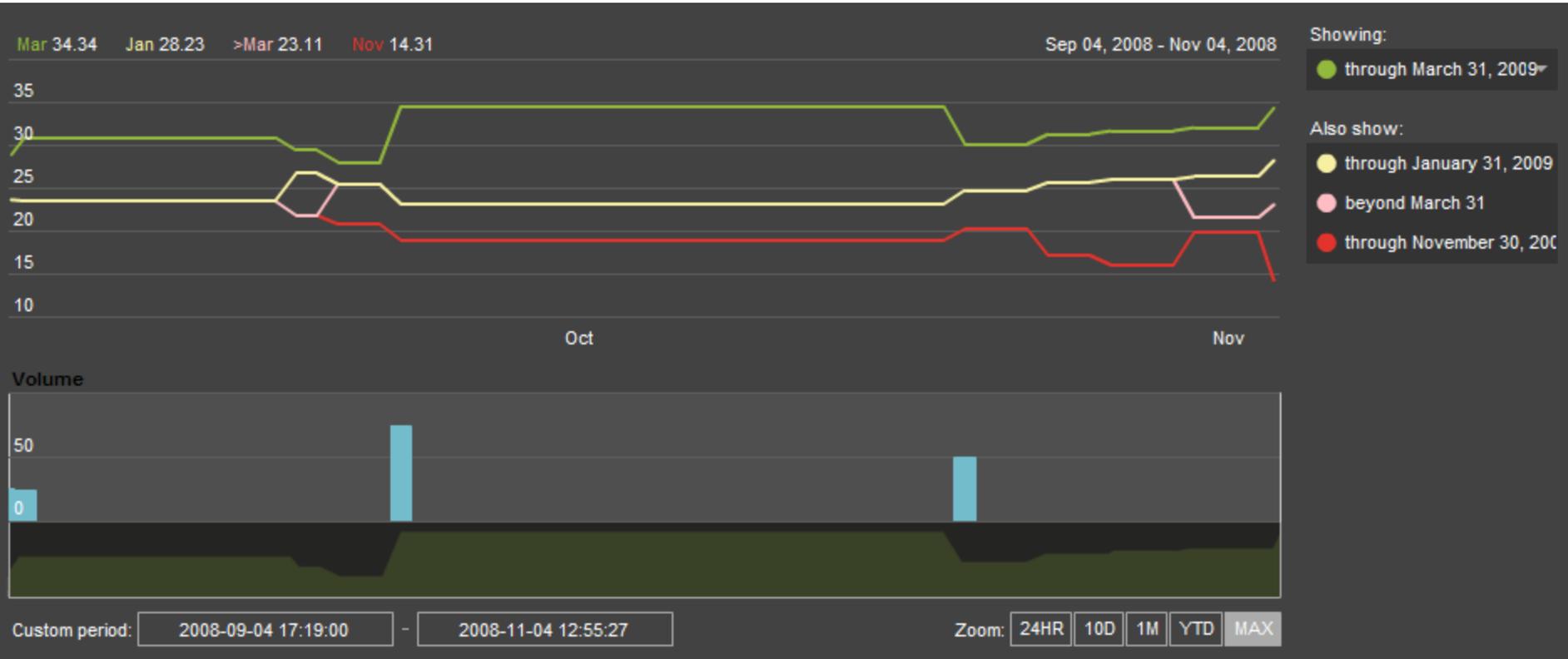
» Global temperature? Dec 31

5 trades, YES = 52.5%

» Length of the CR? Mar 31

12 trades, Mar 31 is leading, but the current CR runs only thru Mar 6 – is Jan 31 a better bet?

» Your Ideas?



How long will NASA and the science agencies be under a CR in FY 09?

Key Considerations

- » Critical Mass
- » Question Design
- » Incentives
- » Market Manipulation
- » Population

Contribute your wisdom to the crowd
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