



## INFORMATION MARKETS: A NEW WAY OF MAKING DECISIONS

Edited by Robert W. Hahn and Paul C. Tetlock

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*Information Markets: A New Way of Making Decisions*, edited by Robert W. Hahn and Paul C. Tetlock, is a collection of essays providing a state-of-the-art analysis of the potential for information markets to significantly aid decision-making in both the public and private sectors. The authors assess what we really know about information markets, examine their potential for improving public policy, propose a research agenda to help improve our understanding of such markets, and explain how to improve their design.

Information markets, also known as prediction or event markets, are exchanges in which buyers and sellers come together to form contracts based on their expectations regarding the outcome of an uncertain event. Because the contract prices in these markets often predict the event outcomes better than leading experts, they have attracted substantial attention from academics, corporate executives, and the media.

The first major information market was started in the late 1980s, when a handful of academics at the University of Iowa's business school decided to give their students some hands-on trading experience by allowing them to bet real money on the outcomes of various events, such as who would be the next president of the United States.

Today, the Iowa Electronic Markets (IEM) are a thriving nonprofit enterprise, offering markets in which traders can wager on events ranging from the outcome of presidential elections to the periodic interest-rate decisions of the Federal Reserve's Open Market Committee.

The success of the IEM has spurred a number of other popular information markets:

- Over \$1 billion worth of event contracts have been traded in the last three years on Ireland-based Tradesports.com, which has markets for a variety of events, including elections, military actions, and high-profile court decisions. Tradesports.com's contract prices predicted all fifty states correctly for Bush and Kerry in the 2004 election.

- The Hollywood Stock Exchange (HSX.com) has registered over 1 million users since 1996 and has predicted Oscar award winners with 92 percent accuracy over the last three years, despite the fact that its contracts are play-money only.
- Major corporations—including Hewlett-Packard, Microsoft, Lilly, and Google—have allowed employees to bet via internal information markets to help predict progress benchmarks.

Why do information markets work as well as they do? No individual, no matter how knowledgeable, is likely to know everything about the probabilities of certain events. By allowing experts and amateurs to trade with one another, markets aggregate disparate pieces of information into a single, useful figure: the contract price. Moreover, not every opinion or piece of information is weighted equally. Traders with the best access to valuable information often bet more than uninformed traders, thus influencing the contract price accordingly. This stands in contrast to polls, board meetings, or other prediction mechanisms in which it may be hard to distinguish those participants who are most confident in their judgments.

*Information Markets: A New Way of Making Decisions* provides a comprehensive look at the markets' key characteristics and their potential political, economic, and social applications.

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