Prediction Markets

Theory and applications

Edited by

Leighton Vaughan Williams

Routledge International Studies in Money and Banking

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Prediction Markets

How can we effectively aggregate disparate pieces of information that are spread among many different individuals? In other words, how can we best access the 'wisdom of the crowd'? Prediction markets, which are essentially speculative markets created for the purpose of aggregating information and making predictions, offer the answer to this question. The effective use of these markets has the potential not only to help forecast future events on a national and international level, but also to assist companies in providing, for example, improved estimates of the potential market size for a new product idea or the launch date of new products and services.

The markets have already been used to forecast uncertain outcomes ranging from influenza to the spread of infectious diseases, to the demand for hospital services, to the box office success of movies, climate change, vote shares and election outcomes, to the probability of meeting project deadlines. The insights gained also have many potentially valuable applications for public policy more generally. These markets offer substantial promise as a tool of information aggregation as well as forecasting, whether alone or as a supplement to other mechanisms like surveys, group deliberations and expert opinion. Moreover, they can be applied at a macroeconomic and microeconomic level to yield information that is valuable for government and commercial policy-makers and which can be used for a number of social purposes.

This volume of original readings, contributed by many of the leading experts in the field, marks a significant addition to the base of knowledge about this fascinating subject area. The book should appeal to all those with an interest in economics, forecasting or public policy, and in particular those with an interest in the study of money, investment and risk.

Leighton Vaughan Williams is Professor of Economics and Finance and Director of the Betting Research and the Political Forecasting Unit at Nottingham Business School, Nottingham Trent University, UK.

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