Prediction Markets and Market Scoring Rules

Reading Questions for Wednesday, February 17, 2016

We ask you to submit comments on the following papers by midnight Tuesday February 16:

- The Promise of Prediction Markets, K.J. Arrow et. al., Science, 320, p.877, May 16 2008.
- Logarithmic Market Scoring Rules for Modular Combinatorial Information Aggregation, R. Hanson, Journal of Prediction Markets, 1(1):3-15, 2007.
- David Pennock's blog on how to implement market scoring rules as a market maker.

Your comments should include both answers to the specific reading questions and generic response about the papers. You are welcome to include any questions you have about the papers in your comments. After submitting your own comments, you'll be able to see others' submitted comments. You can comment on others' submissions and answer raised questions on Canvas. Discussion on Canvas is strongly encouraged.

1 Reading Questions

1. Given the current legal impediments, what do you think are practical applications of prediction markets?
2. In Hanson's logrithmic market scoring rule market, what is the market institution's "worst-case loss?" What does this number depend on? When will this loss be realized?
3. Pennock's blogpost suggests that it's more natural to think of operating a market where traders can "buy and sell shares" instead of "changing the probabilities." How much do you pay for the securities you buy or sell in a cost function market? Describe informally how this is determined.

2 Generic Response

Respond to the papers following the guidelines in the course syllabus (under "Submit Comments and Presenting Papers").