

The wisdom of the openDemocracy crowd

By Tony Curzon Price,
Created 2006-12-29 00:00



Busy forecasters at the Chicago Board of Trade

How good are you at forecasting world events? Can **openDemocracy** readers, authors and editors take the pulse of events? Who are the most effective crystal-ball gazers amongst us? To welcome the new year, **openDemocracy** invites you to join a year-long predictive challenge in the shape of a game. You are invited to trade in predictive markets devised by **openDemocracy's** editors and authors.

The wisdom of crowds [1] may not be evident at a football match, but new social mechanisms are emerging that claim to distil the collective wisdom of large groups. One of the most interesting is called predictive markets and, for 2007, **openDemocracy** and inklingmarkets [1] have teamed up to test predictive market theory with a challenge to our readers.

You can [trade in the openDemocracy markets here](#) [1].

(You need to be a signed-in openDemocracy member [which is free] before trading).

What are predictive markets?

Polls, votes, auctions, juries and markets are instruments that try to quantify a social quality - such as strength of desire, degree of guilt or popularity. They create a process in which the beliefs and judgment of individuals can be resolved into measurable quantities.

Markets are devices that measure degrees of preference: if several people have a high preference for something that is in limited supply, it fetches a high price (the measurement). A

Sotheby's auction, for instance, measures the degree of preference for Van Gogh [2] versus Van Dyck [3].

So much for buying paintings, but what about world events and how can a market be used to measure likelihood in world affairs?

Tony Curzon Price worked as a consultant economist for more than ten years. Since 1997, he has lectured on economics and energy policy to postgraduates at Imperial College, London, and at the École Polytechnique Fédérale de Lausanne (EPFL)

Also by Tony Curzon Price in openDemocracy:

"Why fly? [3]"
(12 June 2002)

"Holistic hunters' knowledge can be harmful [3]"
(3 September 2002)

"Turning the tide: how fear will make People Flow ob-solete [3]"
(10 July 2003)

"iCommons for beginners [3]"
(20 June 2006)

"The 'as if' economist: Milton Friedman's leg-acy [3]"
(27 November 2006)

First you have to imagine that you are a trader in opendemocracy's predictive market. You will be given a budget of 5000 dollars (in the non transferable inkling dollar – come on, it's only a game) to spend on buying predictions. You might want to spread your purchases over a series of safe forecasts, or blow your budget on a few events that look highly mispriced. If a prediction comes true, each contract you hold in it will pay out 100 hundred dollars to you. The price at which you buy will vary according to the market - in other words, to other people's beliefs. If your beliefs are very different from openDemocracy consensus, you will be tempted to trade; if you turn out to be right, you will be rewarded for your contribution to changing the consensus. The market is there to elicit information out of you.

If you bought the prediction that in 2007 North Korea will launch an attack on Japan at five inkling dollars and it came true, you would make ninety five inkling dollars. The predictive quality of the game is that the more people think it likely to happen, the more the price rises and the price therefore measures the community's aggregated strength of belief in the likelihood of this event. If circumstances change – Kim Jong Il becomes a democratic idealist, for instance - you can quickly try to sell the contract, though you'd need to find a willing buyer.

Markets as measures of belief are familiar in the financial sector, but a predictive market takes this quality and turns it on its head. What is valuable in predictive markets is the price, not the goods that are traded. It is by tracking the price that businesses have learned to use them to collect diffuse information that is otherwise hard to formalise.

Hewlett Packard, for example, was unable accurately to forecast its own printer sales. The company instituted a predictive market within the printer division, offering contracts like "We will sell 1 million printers this month" and "We will sell 1.5 million printers this month", and offering

money rewards to the winning predictions. They soon found that the markets outperformed their planners.

openDemocracy and [inklingmarkets](#) [3] have put together their 2007 Challenge using these tools.

We will offer 15 predictions that have been distilled from our authors' and editors' crystal-ball gazing for 2007. Each of these predictions has an associated market contract and each registered **openDemocracy** member has \$5,000 inkling to spend. If you think one of the predictions is much more likely than its current price, go to the market and buy that contract. The inkling software makes it simple. Throughout the year, we will link the markets with articles as an invitation to update your state of knowledge.

As a good trader, you should, of course, be asking: "What is in it for me?"

Here's the deal. Every month, I will review the activity in the markets and write-up who is doing well and badly. If your view of the world is unusually perceptive, you will top the trader lists and I will write about you and ask you to share your wisdom. At the end of each quarter, I will hand out three very attractive and valuable prizes to the three best traders of the quarter. And as we come in to December 2007, the most successful forecaster of the year will be invited to write, with me, a joint review of the year for all of us at **openDemocracy**.

You can [trade in the openDemocracy markets here](#) [3].

(You need to be a signed-in openDemocracy member [which is free] before trading).

Source URL:

http://www.opendemocracy.net/globalization-vision_reflections/inkling_markets_4202.jsp

Links:

[1] <http://www.randomhouse.com/features/wisdomofcrowds/>

[2] http://www.rijksmuseum.nl/aria/aria_artists/00016978?lang=en

[3] http://www.rijksmuseum.nl/aria/aria_artists/00017049?lang=en



This article is published by Tony Curzon Price, , and openDemocracy.net under a Creative Commons licence. You may republish it free of charge with attribution for non-commercial purposes following these guidelines. If you teach at a university we ask that your department make a donation. Commercial media must contact us for permission and fees. Some articles on this site are published under different terms.