Prediction Markets for Development

A prediction market (also known as an information, or idea market) is a web-based, speculative market designed to predict the outcome of a particular event. It is like a stock market where people buy and sell shares in ideas, instead of in companies.
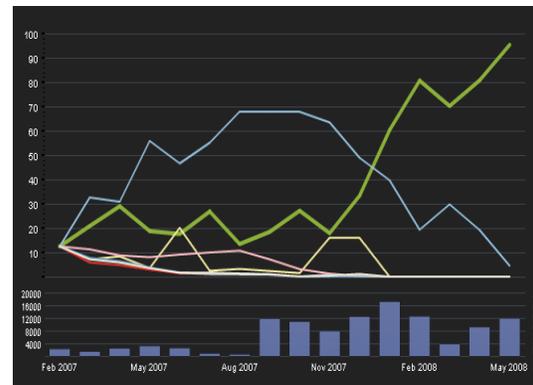
Together with Inkling Markets, Root Change is pioneering the use of prediction markets to identify promising ideas and trends in the development sector. Using an interactive, online platform, we pose a question and invite thought leaders, practitioners, and others with a stake in the development field to play as traders and share their opinions. Traders buy and sell shares in stocks representing possible answers. The price of a stock represents the group's collective opinion. At the end of the trading period, the highest priced stock is the group's prediction of the most successful solution or promising idea.

The market harnesses the wisdom of the crowd by aggregating the knowledge of its players and representing it as a single share price. When taken together, this information provides a powerful indication of the quality of an idea and the most accurate possible prediction of "what is to come" and "what will work"—information that can help organizations better understand and adapt to upcoming changes that will impact their work.

Graphic: Prediction market on political trends

Additionally, the market is a virtual meeting and learning space—an intersection of sorts. Within the marketplace, participants can post and receive feedback on their ideas from a global community of practitioners and organizations. They can find solutions to their challenges, identify proven tools and approaches that can be replicated, or suggest how others might improve their work.

Currently, prediction markets are the most reliable forecasting method available, outperforming pundits and polls alike. This fact has led industry leaders like Google, Microsoft, Yahoo, HP, CNN and The Economist to use them to predict everything from political races, match outcomes, commodity prices, global issues and trends, and the market success of new products.[1]

For more information on how you and your partners can benefit from Root Change's Prediction Markets, please contact Jacob Gray at jgray@rootchange.org.

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[1] The Iowa Election Market has forecasted elections results better than polls 451 out of 596 times (Source: Berg, et al. *Results from a Dozen Years of Election Futures Markets Research.* Nov. 2000; Kambil, Ajit. "You Can Bet on Idea Markets." HBS Press. 2003). Hollywood play-money markets outperform every four out of five columnists in predicting the Oscars.