Why we're hoping the wisdom of crowds can beat Mark Carney [1]

Written by **Sam Bowman** [2] | Wednesday 28 August 2013

Today we've launched two betting markets to try to use the 'wisdom of crowds' to beat government economic forecasters. Here's the press release we sent out:

The Bank of England?s economic forecasts have been wrong again and again. To counter this, the free market Adam Smith Institute is today (Wednesday 28th August) launching two betting markets where members of the public can bet on UK inflation and unemployment rates, taking the government?s experts on at their own game. The markets are designed to aggregate individual predictions about the economy?s prospects to use the ?wisdom of crowds? to beat the predictions of government experts.

The launch coincides with Mark Carney?s first major speech as governor of the Bank of England and follows his announcement earlier this month that the Bank will consider both inflation and unemployment when deciding monetary policy.

The markets (which will be run by bookmaker Paddy Power and can be accessed here [3]) offer these odds:

UK Inflation on 1st June 2015
7/1 - 2% or Less
3/1 - 2.01 - 3.00%
9/4 - 3.01 - 4.00%
5/2 - 4.01 - 5.00%
7/2 - 5% or Greater

UK Unemployment rate on 1st June 2015
9/2 - 5% or Less
3/1 - 5.01 - 6.00%
15/8 - 6.01 - 7.00 %
5/2 - 7.00- 8.00%
5/1 - 8% or Greater

Bookmaker odds tend to be far more reliable than expert opinions about sports, politics and the Eurovision Song Contest, because betters have a strong financial incentive to bet in a dispassionate way and betting markets collect the judgments of thousands of different people, eliminating individual biases.

Even if no single member of the public can beat the experts, collecting the local knowledge of thousands of people in betting markets allows for a much broader set of data points, weighted according to the strength of people?s beliefs. The Office for Budget Responsibility already collects around two-dozen expert predictions, but this is nothing like the kind of volume needed for the ?wisdom of crowds? effect to take place.

These markets follow the CIA?s attempts to use betting markets to anticipate geopolitical crises, which were short-lived because of public objections. In future, the Adam Smith Institute will use these markets to compare betters? judgments about the direction of the economy to those of government forecasters.

Sam Bowman, Research Director of the Adam Smith Institute, said: ?No individual can know enough about the economy to make a really reliable prediction about it. By combining the local knowledge of thousands of people, betting markets can outpredict any panel of experts. If these markets catch on, the government should consider outsourcing all of its forecasts to prediction markets instead of expert forecasters.?

Rory Scott from Paddy Power said ?Mr Carney ? forget your fancy financial models; let?s see where the great British public put their pound instead. Failing that, perhaps the solution to topping up the Bank of England coffers is to take advantage of Paddy Power?s 7/1 for inflation to be 2% lower come June 1st 2015.?

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