



# Does money matter in predicting future events?

By Sebastian Diemer



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Prediction markets are online trading platforms where contracts on future events are traded with payoffs being exclusively linked to event occurrence. Scientific research has shown that market prices of such contracts imply high forecasting accuracy through effective information aggregation of dispersed knowledge. This phenomenon is related to incentives for truthful aggregation in the form of real-money or play-money rewards. The question whether real- or play-money incentives enhance higher relative forecast accuracy has been addressed by previous works with diverse findings. The current state of empirical research in his field is subject to two inherent deficiencies. First, inter-market studies suffer from market disparities and differences in the definition of underlying events. Comparisons between two different platforms (one for play-money contracts, one for real-money contracts) are potentially biased by different trading behaviour. Second, the majority of studies are based upon identical datasets of market platforms (IOWA stock exchange, Tradesports/Intrade, NewsFutures).

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## **Editorial Review**

### **About the Author**

Sebastian Diemer holds a Bachelor of Science from the European Business School as well as a Master of Science from the London School of Economics. He has published several studies on opportunities in the digital era and has started and sold several ventures. He likes travelling (travelled each continent and 52 countries), sports, and especially, water sports.

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