

# A Predictions Markets Mess

The prediction market exchange Tradesports have themselves a little controversy over North Korean missiles.

I have written about prediction (or information markets) [before](#). Consider some future binary event like whether Hillary Clinton will be the democratic nominee for president in 2006. One can create a security 2008DEM.NOM.CLINTON that pays off \$100 if Clinton wins the nomination and \$0 if she doesn't. Then allow trading on the security including selling short. The price of the security will correspond to the probability that the event will occur, and studies have [shown](#) that these probabilities predict better, in general, than experts and polls. Tradesports has such a security on Clinton and the price as I write this for 2008DEM.NOM.CLINTON is 41.9 indicating Clinton has a 41.9% chance of winning the nomination.

Tradesports had another security N.KOREA.MISSILE.31JUL that would pay off if North Korea launches a test missile that leaves North Korean air space by July 31. As you might [remember](#), North Korea did fire test missiles on the fourth of July. So it seems like the security N.KOREA.MISSILE.31JUL should have paid off at \$100.

Here's the rub. The fine details of the contract required that the US Department of Defense verify that the missiles left North Korean air space. Tradesports couldn't get the verification so they expired the security at \$0.

Those who predicted the North Korean missile launch lost real money on a technicality which risks the accuracy of these markets. They no longer predict whether a launch occurs, just whether the DoD would acknowledge it.

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