Some notes on chapter 4

the terrorism futures market

This is an example of a futures market that lets people bet on propositions about politics: https://www.predictit.org/markets. Anyone can buy *yes* or *no* shares for whatever the current price is, and then, once the event occurs, everyone who owns winning shares is paid $1 per share. Since the people who participate are betting with their own money, the thought is that they won't just choose the outcome that they prefer; rather, they will choose the outcome that they think is the most likely to actually happen. People who are better informed should be more confident and willing to bet more. Greater demand for a choice will drive up the price, and so the share prices constitutes a reasonable prediction about what will happen (with each share price serving as the probability of the outcome).

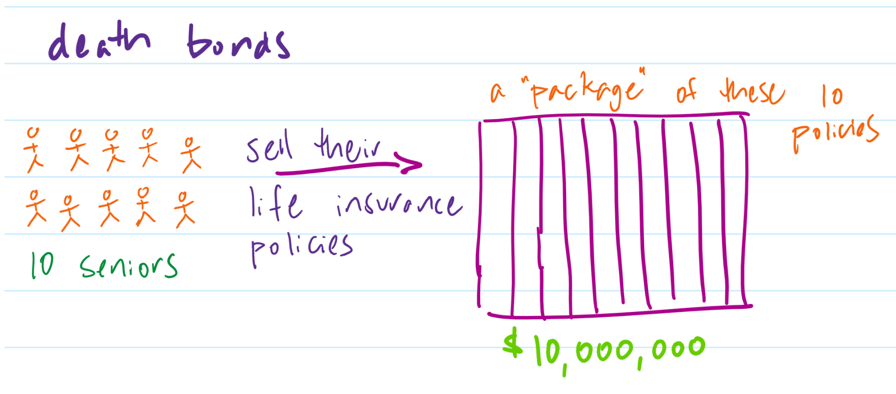
Likewise, the short-lived Policy Analysis Market (or "terrorism futures market," as it came to be called), was supposed to work in a similar way. The propositions in this case would be ones like those that Sandel gives in the first full paragraph on p. 150.

life settlements

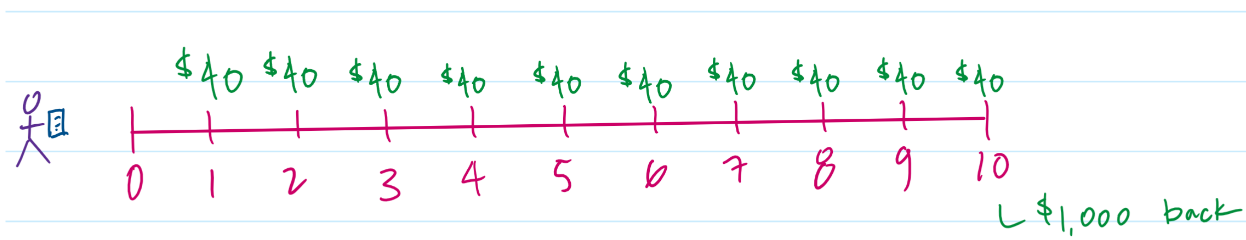
Life settlements are policies purchased from senior citizens who don't need the policies anymore. Once they are sold to investors, they work similar to viaticals. There is a distinction, however, between (1) policies that the senior citizen bought earlier in his or her life for the normal life insurance purposes—these becomes "stranger-owned life insurance" once it is sold to an investor. And (2) policies that senior citizens are encouraged to buy by brokers so that they can be immediately sold to investors—these become "stranger-originated" or "speculator-initiated" or "spin-life" policies.

death bonds

For the death bonds, we start with life settlements (or maybe in some cases viaticals) that are collected and "packaged." For instance, let's say that ten seniors have life insurance policies that will each pay out $1 million when the individual dies. The ten seniors sells their policies to a company that bundles them together so that they have a single unit for investment purposes.



The company that put this package together then sells bonds to the public that pay regular interest. Let's say that 10-year bonds can be purchased for $1,000 and pay 4 percent interest per year ($40). So, when a person buys one $1,000 bond, this bond holder will get $40 every year for ten years, and then, after ten years, he or she will get the $1,000 back.



The company uses the money that they make from selling bonds to pay the premiums on the life insurance policies. As the seniors begin to die, the company gets the $1,000,000 life insurance payout for each policy in the package. This money, then, will be used to continue paying the interest on the bonds and pay back the bond holders after ten years. Whatever is left over will be profit for the company.