A	bstra	ct		2
$\mathbf{C}$	ontei	nts		3
Li	ist of	Figure	es	9
A	ckno	wledge	ments	12
A	utho	r's decl	aration	13
1	Intr	°O		15
	1.1	Bayes'	Theorem: Foundations and Applications	15
		1.1.1	Statement of Bayes' Theorem	15
		1.1.2	Bayesian Inference for Parameters	15
		1.1.3	Posterior Proportionality	16
		1.1.4	Applications of Bayes' Theorem	16
		1.1.5	Interpretation and Practical Implications	17
	1.2	Conjug	gacy and Conjugate Priors	17
		1.2.1	Definition of Conjugacy	17
		1.2.2	Advantages of Conjugacy	17
		1.2.3	Examples of Conjugate Priors	18
			1.2.3.1     1. Binomial Likelihood with Beta Prior	18
			1.2.3.2   2. Normal Likelihood with Normal Prior	18
			1.2.3.3   3. Poisson Likelihood with Gamma Prior	18
			1.2.3.4 4. Multinomial Likelihood with Dirichlet Prior	19

	1.2.4	Non-Conjugate Priors	19
	1.2.5	Relevance to This Thesis	19
	1.2.6	Dirichlet-Multinomial Distribution and Conjugacy	19
		1.2.6.1 Prior Distribution: Dirichlet Distribution	19
		1.2.6.2 Likelihood: Multinomial Distribution	20
		1.2.6.3 Posterior Distribution: Dirichlet Conjugacy	20
		1.2.6.4 Application to Forecasting	21
		1.2.6.5 Relevance to This Thesis	21
		1.2.6.6 Posterior Distribution	21
1.3	Proba	bility Scoring	23
	1.3.1	Definition of Probability Scores	23
	1.3.2	Relevance of Probability Scores	23
	1.3.3	Proper and Strictly Proper Scoring Rules	24
	1.3.4	Mathematical Derivations of Scoring Rules	24
		1.3.4.1 Logarithmic Score (Log Score)	24
		1.3.4.2 Brier Score	25
		1.3.4.3 Spherical Score	25
	1.3.5	Examples of Probability Scoring in Practice	25
	1.3.6	The Kelly Criterion and Its Relationship to the Log Score	26
	1.3.7	Lindley and the Geologist: Motivating Forecast Aggregation .	26
	1.3.8	Summary	27
1.4	Bayesi	ian Two-Sample Hypothesis Testing	27
	1.4.1	Problem Statement	28
	1.4.2	Bayesian Framework	28
		1.4.2.1 Model Under $H_0$	28
		1.4.2.2 Model Under $H_1$	28
	1.4.3	Nonparametric Priors: Pólya Tree Prior	28
		1.4.3.1 Prior Specification	28
		1.4.3.2 Posterior Under $H_0$	29
	1.4.4	Bayes Factor for Model Comparison	29
	1.4.5	Consistency and Sensitivity	29
	1.4.6	Applications and Simulations	29
1.5	Aggre	gators and Aggregation Functions	30
	1.5.1	Definition of Aggregation Functions	30
		1511 Properties of Aggregation Functions	30

	1.5.2	Types of Aggregation Functions
		1.5.2.1 Arithmetic Mean
		1.5.2.2 Weighted Mean
		1.5.2.3 Median
		1.5.2.4 Geometric Mean
		1.5.2.5 Logarithmic Aggregator
	1.5.3	Aggregation in Probabilistic Forecasting
		1.5.3.1 Linear Pool
		1.5.3.2 Logarithmic Pool
	1.5.4	Applications of Aggregation Functions
	1.5.5	Challenges in Aggregation
1.6	Chang	ge Point Detection
	1.6.1	Definition of Change Points
	1.6.2	Properties of Change Point Detection
	1.6.3	Types of Change Point Detection Methods
		1.6.3.1 Parametric Methods
		1.6.3.2 Non-Parametric Methods
		1.6.3.3 Bayesian Methods
		1.6.3.4 Machine Learning Approaches
	1.6.4	Applications of Change Point Detection
	1.6.5	Challenges in Change Point Detection
1.7	Bettin	g Markets and Prediction Markets
	1.7.1	Definition and Purpose
		1.7.1.1 Differences Between Betting and Prediction Markets 36
	1.7.2	Key Players and Roles
	1.7.3	Payoff Structures
		1.7.3.1 Binary Payoffs
		1.7.3.2 Continuous Payoffs
	1.7.4	Mathematical Framework
		1.7.4.1 Market Clearing and Equilibrium
		1.7.4.2 Information Aggregation
		1.7.4.3 Scoring Rules and Payoffs
	1.7.5	Prominent Examples
		1.7.5.1 Betfair
		1.7.5.2 Polymarket

			1.7.5.3 Kalshi	38
		1.7.6	Applications of Prediction Markets	38
		1.7.7	Challenges and Limitations	38
	1.8	Wisdo	om of Crowds and Its Relevance in Popular Culture	39
		1.8.1	Theoretical Foundation	39
		1.8.2	Popularization of the Wisdom of Crowds	39
			1.8.2.1 James Surowiecki's <i>The Wisdom of Crowds</i>	39
			1.8.2.2 Nate Silver's Contributions	40
			1.8.2.3 Philip Tetlock's Work on Superforecasting	40
		1.8.3	Applications of the Wisdom of Crowds	41
		1.8.4	Challenges and Limitations	41
		1.8.5	Bruno de Finetti: Subjective Probability and Exchangeability	41
			1.8.5.1 Subjective Probability	41
			1.8.5.2 Exchangeability	42
		1.8.6	Leonard J. Savage: Decision Theory and Personal Probabilities	42
			1.8.6.1 Subjective Expected Utility (SEU) Framework	42
			1.8.6.2 The Role of Bayesian Inference	43
		1.8.7	The Intersection of Savage and de Finetti's Ideas	43
2	Kai	rosis		44
	2.1	Introd	luction	44
	2.2	Metho	$\mathrm{ods}$	48
		2.2.1	Deriving a distribution over change point locations	48
		2.2.2	Parameter Selection	52
	2.3	Result	ts	55
		2.3.1	Scoring aggregated forecasts	56
		2.3.2	Performance Evaluation	57
		2.3.3	Remarks on kairosis and crowd inaccuracy	61
	2.4	Discus	ssion	61
	2.5	A wor	ked example of computing the kairosis weighting function	63
	2.6	Non-F	Probabilistic Questions	64
	2.7	Sensit	ivity Analysis	66
3	$\mathbf{Ord}$	lerboo	k	69
	3.1	Introd	luction	69

3.2	Backg	ground and Literature Review	71
	3.2.1	Belief Elicitation in Prediction Markets	71
	3.2.2	Market Microstructure and Order Book Dynamics	73
	3.2.3	Bayesian Inference and Beta Distributions in Markets	74
	3.2.4	Truncated and Censored Data Models	75
	3.2.5	Polymarket and Prior Work	77
3.3	Data a	and Market Context	78
	3.3.1	Polymarket Structure and Mechanics	78
	3.3.2	Order Book Visibility and Examples	80
3.4	Model	ling Framework	82
	3.4.1	Latent Beliefs and the Beta Distribution	82
	3.4.2	Filtering via Strategic Order Placement	82
	3.4.3	Stage 1: Histogram-Based Beta Fit	82
	3.4.4	Stage 2: Rejection Sharpening	83
	3.4.5	Stage 3: Inverse Simulation to Recover Latent Beliefs	83
	3.4.6	Summary	83
3.5	Estim	ation Procedure	84
	3.5.1	Stage 1: Fitting the Filtered Belief Distribution	84
	3.5.2	Stage 2: Rejection Sharpening	84
	3.5.3	Stage 3: Inverse Simulation and Latent Recovery	84
	3.5.4	Interpretation	85
3.6	Tempe	oral Dynamics and Granger Causality	
	3.6.1	Variable Definitions	85
	3.6.2	Model Specification and Estimation	86
	3.6.3	Granger Causality Tests	86
	3.6.4	Interpretation	86
	3.6.5	Toy Illustration	87
	3.6.6	Conclusion	87
3.7	Discus	ssion and Conclusion	87
	3.7.1	Summary of Contributions	88
	3.7.2	Key Insights	88
	3.7.3	Applications and Broader Implications	89
	3.7.4	Limitations and Future Work	89
	375	Conclusion	90

8	Contents

5 Coi	nclusion and Future Work 92
5.1	Summary of Contributions
5.2	Thematic Connections
5.3	Limitations
5.4	Future Work
5.5	Final Remarks