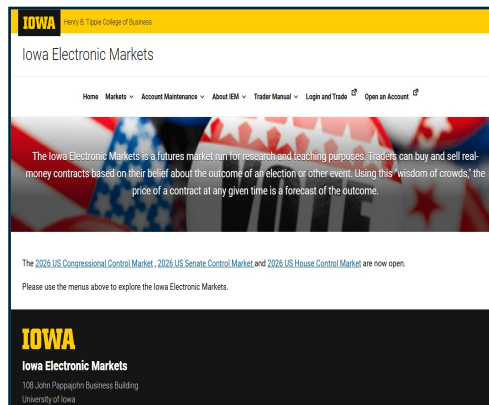


Prediction Markets: What They Are, How They Work, And Why They Matter

Oregon Health Authority, Problem Gambling Services
April 2, 2026

Presented by the Oregon Council on Problem Gambling
Contact: Glenn Yamagata (glenn@oregoncpg.org)

Prediction Markets: Not a New Phenomenon



Using Prediction Markets to Enhance US Intelligence Capabilities

A "Standard & Poors 500 Index" for Intelligence

Puang Fei Yeh

In 2001, the Defense Advanced Research Project Agency (DARPA) started experimenting with methods for applying Prediction markets can contribute to US Intelligence Community strategic and tactical intelligence work"

DARPA's Future Markets Applied to Prediction (FutureMAP) program tested whether prediction markets, markets in which people bet on the likelihood of future events, could be used to improve upon existing approaches to preparing strategic intelligence. The program was cancelled in the summer of 2003 under a barrage of congressional criticism. Senators Ron Wyden and Byron Dorgan accused the Pentagon of wasting taxpayer dollars on "terrorism betting parlors," and that "Spending millions of dollars on some kind of fantasy league terror game is absurd and, frankly, ought to make every American angry."

Americans need not have been angry about FutureMAP. It was neither a terrorism betting parlor nor a fantasy league. Rather, it was an experiment to see whether market-generated predictions could improve upon

The Death and Life of Prediction Markets at Google

Dan Schwarz

Over the past two decades, Google has hosted two different internal platforms for predictions. Why did the first one fail — and will the other endure?

It's July 2005. Google is the darling of Silicon Valley. It has just unveiled Google Maps; Gmail is still in beta. Next year it will acquire YouTube and launch Google Translate.

The week's new hires file past a full-size dinosaur skeleton in the courtyard on the way to their first TGIF — the company's weekly all-hands. They wear beanies with red, yellow, green, and blue colors — like the yet-to-be-designed Chrome logo — with a propeller on top. They are here to see Google's founders, Larry Page and Sergey Brin, both wearing shorts and plain colored t-shirts, banter about new tech.

In the first line of their Founders' IPO letter, Page and Brin wrote "Google is not a conventional company." They sought to provide "unbiased, accurate and free access to information." On this Friday, Patri Friedman, the grandson of Milton Friedman, and Bo Cowgill, now an economics professor at Columbia University, are here to talk about Google's next bet to do this: an internal prediction market called Prophit.

On stage next to Larry Page, Friedman and Cowgill announce winners from Prophit's first quarter and show statistical results on its forecasting accuracy. Prophit was popular inside Google. Over the next three years, about 20% of all Google employees would place bets.

Two months after this presentation, *The New York Times* covered Prophit. They wrote about it again in 2008, and it became a *Harvard Business Review* case-study. Despite the momentum, in March 2010, Prophit hit a major roadblock in its public launch as an external product. It attempted a pivot, and ultimately shut down in 2011.

The Promise of Prediction Markets

POLICYFORUM

ECONOMICS

The ability of groups of people to make predictions is a potent research tool that should be freed of unnecessary government restrictions.

Information Revelation Through Time

Information revelation through time. Data are from the Iowa Electronic Markets for markets predicting the two-party vote share from the 1988, 1992, 1996, and 2000 presidential elections. The vertical axis plots the average absolute difference between the market prediction and the actual vote share. In the week immediately before the election, the market error is on average of 1.5 percentage points compared with an average error of 2.1 percentage points for the final Gallup poll. The longer-run forecasting performance of the market is also impressive, with an average error of only 0.5 percentage points 150 days before the election, a time when polls have much larger errors when interpreted as predictions. Calculations are based on data available at www.iem.uiowa.edu.

These markets could assist private firms and public institutions in managing economic risks, such as decline in consumer demand and social risks, such as flu outbreaks and environmental disasters, more efficiently. Unfortunately, however, current federal and state laws limiting gambling create significant barriers to the establishment of vibrant, liquid prediction markets in the United States. We believe that regulators should lower these barriers by creating a legal safe harbor for specified types of small-scale markets, stimulating innovation in both their design and their use (9).

Legal Implications

The use of prediction markets has been greatly detoured by state and federal laws restricting Internet gambling, because at least some of these laws are plausibly understood to cast serious doubts on prediction

Prediction markets have existed for decades as tools for aggregating information. Their primary purpose has been to harness collective intelligence rather than to serve as a form of gambling.

Senator Ron Wyden on Prediction Markets*

- Senator Ron Wyden (Oregon) commenting on the existence of DARPA Prediction Markets in 2003.
- The markets operated for a few days after they were announced and never reached full operation.



What are Prediction Markets?

Prediction markets are platforms where individuals trade **contracts** tied to the outcomes of future events, such as elections, cultural events, or weather patterns.

Each contract represents a specific outcome and its value (price of contract) is based on the market's collective assessment of the likelihood that the event will occur.

Contracts are priced between \$0.01 and \$0.99, and each contract pays \$1.00 if the event occurs.

When you "buy" the contract, in this case for 13 cents, you are wagering that the event will happen. Alternatively, when you "sell" the contract, for 88 cents, you are wagering that the event will not occur.

Kalshi Event Contract



Will Stranger Things release a new episode this year?

Buy Yes

Buy

Sell

Dollars ▾

Yes 13¢

No 88¢

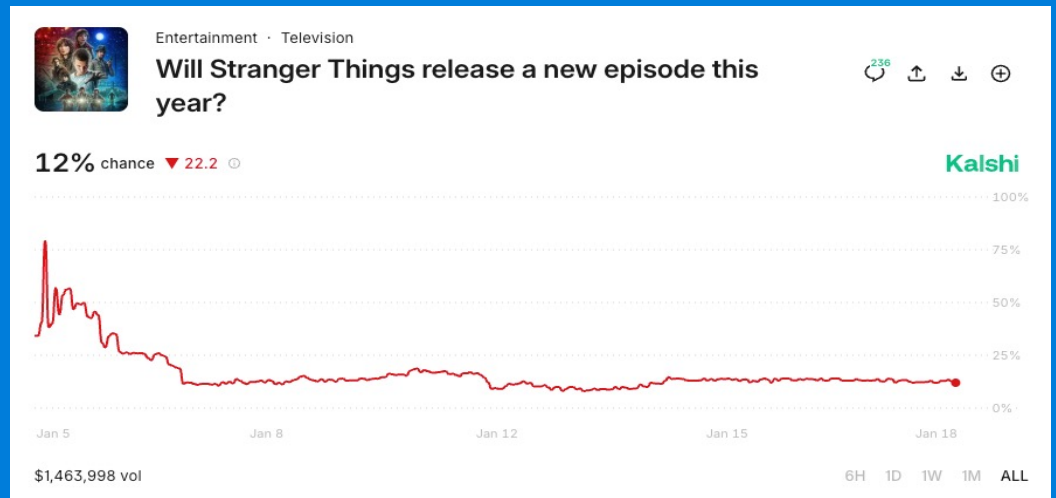
Prediction Market Payout Volatility

Prices fluctuate as participants buy and sell contracts in response to new information and changing expectations.

If the market assesses an outcome as more likely to occur, the contract price increases; if it is viewed as less likely, the price decreases.

These contracts can be bought and sold any number of times prior to outcome resolution, making them structurally similar to trading in traditional financial assets and dissimilar to traditional forms of gambling where individuals are typically not allowed to trade in and out of their wagers.*

Fluctuations in Contract Prices Over Time



- This is similar to the cash-out feature offered by some gambling platforms, such as sportsbooks; however, it is not a fundamental feature of the wagering activity itself. ** Technically, prediction markets such as Kalshi function as exchanges that match traders taking “yes” and “no” positions while holding collateral to guarantee settlement.

Prices as probabilities, and probabilities as information

The price of the contract reflects the implied probability of the event occurring.

Differences in beliefs

Individuals disagree about the likelihood of the event

Disagreement creates trades

Individuals express their beliefs by buying or selling contracts

Trades move prices

Buying pushes prices up and selling pushes prices down

Prices reflect probabilities

Price ~ Expected Value ~ Probability*

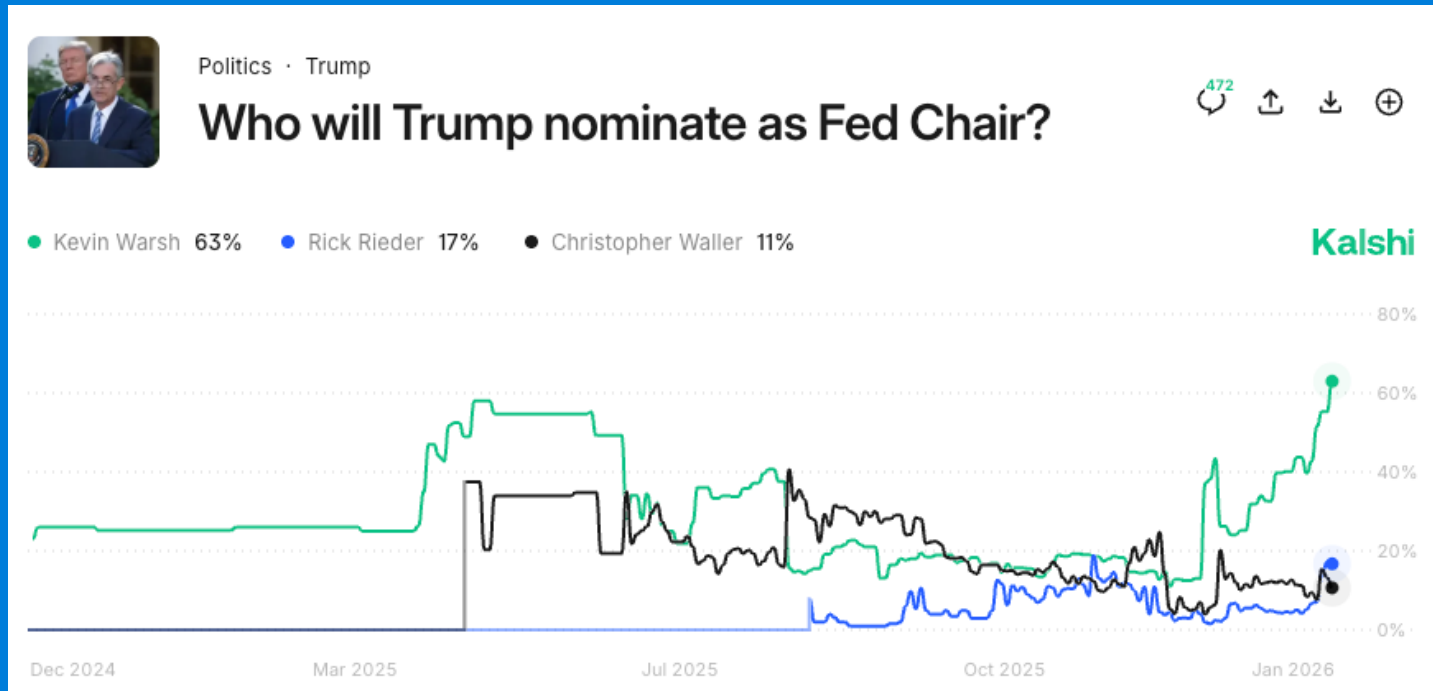
Probabilities as information

Probability ~ Information

* Expected Value = $(P(\text{event}) * \text{Payoff}) + (P(\text{no event}) * \text{Payoff}) = (P(\text{event}) * \$1) + (P(\text{no event}) * 0) = P(\text{event})$ ~ Price in a competitive market and risk neutrality ~ Information, under rational expectations and market efficiency.

Elevated Prediction Market Payout Volatility

Fluctuations in Contract Values Over Time



This example illustrates much higher price volatility in a prediction market focused on who will become the next Federal Reserve Chair, showing how new information, speculation, and changing expectations are reflected in real-time price movements.

How Prediction Markets Make Money

Trading Volume*

- Prediction markets generate revenue from fees for each trade made.
- Kalshi charges a percent, around 1.2% - 1.75%, depending on the contract price.*
- Polymarket (U.S.) charges a flat 0.10% (10 basis points) fee on the contract price.
- Polymarket (Global) charges no transactions fees (except on its 15-minute crypto markets).

Channel Partnerships

- Channel partners such as Robinhood, Coinbase, and Jupiter interface directly with customers, while prediction market platforms like Kalshi and Polymarket operate in the background, matching orders, clearing trades, and handling settlement.

Other

- Data Products, such as probability data sold to institutions and media companies (e.g., CNBC, CNN, and the Wall Street Journal).
- Liquidity Spread, such as when the prediction market plays the role of market maker.

Unlike traditional gambling operators, such as casinos and sportsbooks, prediction markets are not designed to profit based on outcomes. Instead, they facilitate trades between participants and generally take a neutral position on outcomes (provided they are not acting as a market maker). They don't act as the 'house.'

* See <https://defirate.com/prediction-markets/fees/> for fees on other prediction markets, such as DraftKings Predictions, Crypto.com, Robinhood, etc.

Prediction Markets Making Headlines

Disruptions in the gambling landscape

GAMBLING

FanDuel, DraftKings abandon AGA trade group as rift over sports prediction markets grows

PUBLISHED TUE, NOV 18 2025-8:26 AM EST | UPDATED TUE, NOV 18 2025-2:58 PM EST

FanDuel Prediction Market App Goes National, Sports Available in California

NEWS

Predictive markets set to make sports betting a big issue again

Mainstream media embraces prediction markets

Polymarket and Dow Jones, Publisher of The Wall Street Journal, Announce Exclusive Prediction Market Partnership

Exclusive: CNN strikes prediction data partnership with Kalshi

These Apps Let you Bet on Deportations and Famine. Mainstream Media Is Eating It Up.

Movement from fringe to center

Sports Illustrated to launch new prediction market platform

Adverse impact on society

How Prediction Markets Turned Life Into a Dystopian Gambling Experiment

Ongoing legal battles

Mass. sports betting war escalates with Polymarket suit

Arizona Capitol Times

Trump admin. sues Ariz., Con., Ill. over prediction markets

NEWS

MLB doubles down on gambling with new Polymarket deal

! Yahoo

Could JPMorgan Be Your Next Prediction Market Platform? Jamie Dimon Sa...

Trump Media unveils prediction market Truth Predict

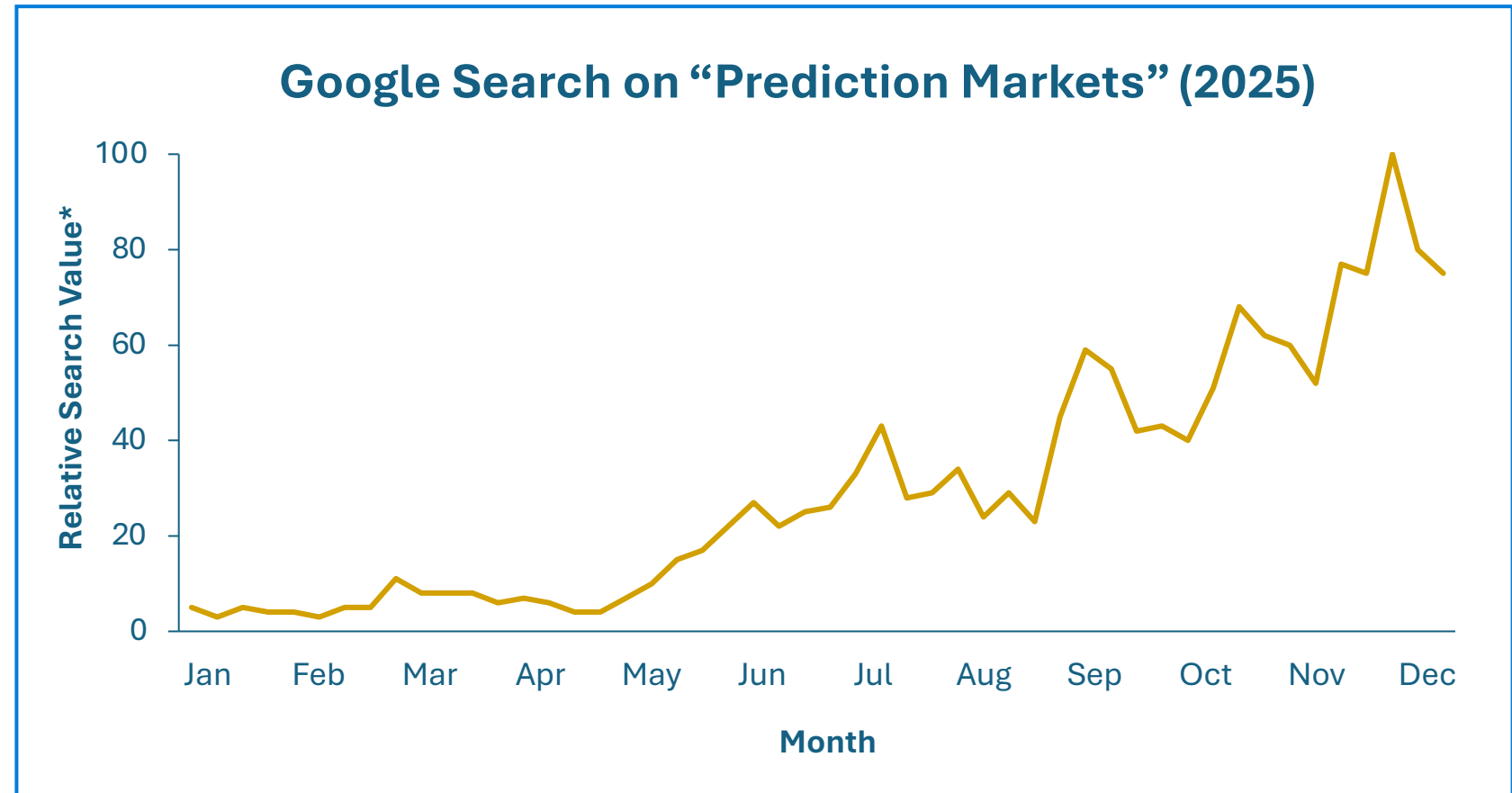
UFC inks deal with prediction betting platform Polymarket

Coinbase Sues Three States Over Prediction Market Regulation

NY attorney general takes aim at prediction markets

Growing Public Interest in Prediction Markets

Google Trends is a publicly available tool that shows how frequently a specific term is searched on Google over time, relative to all other searches. This chart shows Google search interest for “Prediction Markets” in 2025, illustrating periods of growing interest in the topic.

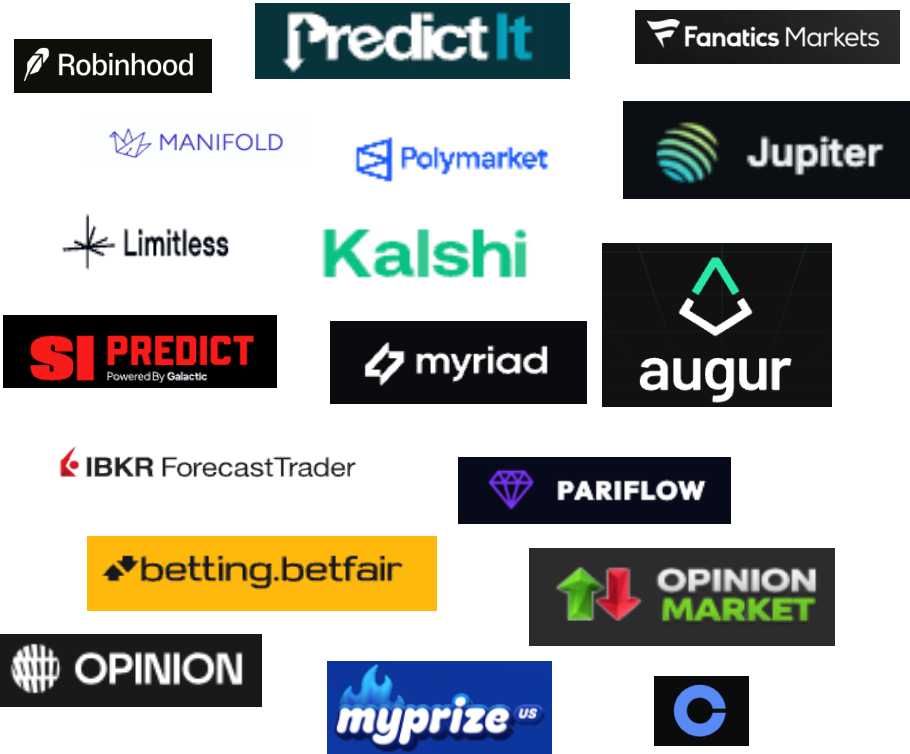


* The data are indexed on a scale from 0 to 100, where 100 represents the period of highest search interest for the selected term and region.

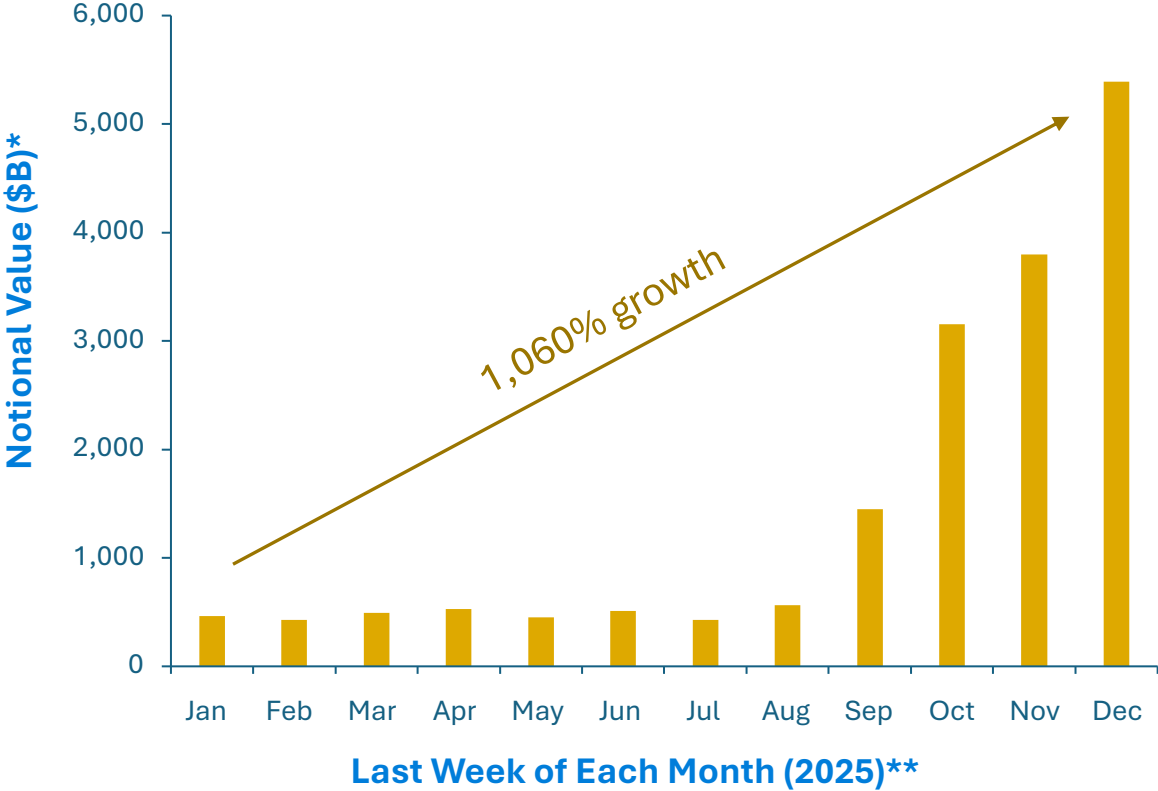
Why Prediction Markets Matter

Explosive Growth

Growing list of Prediction Market Platforms



Total Contract Value Over Seven Prediction Markets



* Notional value represents the total dollar value of all prediction market contracts, indicating the overall scale of the market. The data are approximate due to differences in calculation methods across platforms. Only Kalshi, Polymarket, Opinion, PredictIt, IBKR, Limitless, and Myriad prediction market platforms are included in the data. Source: Dune Analytics

** 01/27/25, 02/24/25, 03/31/25, 04/28/25, 05/26/25, 06/30/25, 07/28/25, 08/25/25, 09/29/25, 10/27/25, 11/24/25, 12/29/25

Why Prediction Markets Matter

Low Barriers to Entry in **Gray Zone**

No gambling license required.

No state-by-state regulatory approval.

Can be built on existing blockchain infrastructures (Polygon, Solana, etc.)

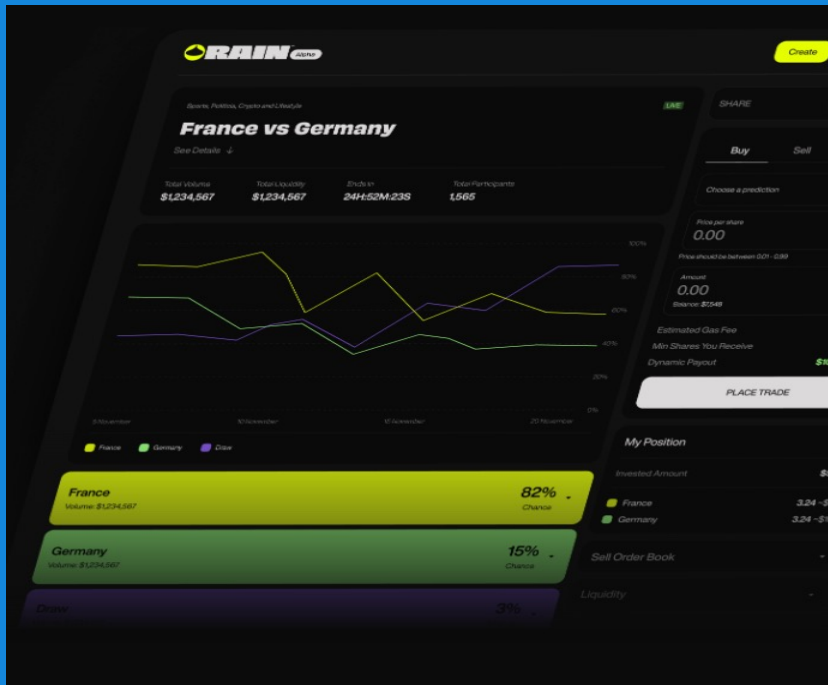
A prediction market can be developed in weeks to months, for public markets and days for private markets.

Barrier: Attracting a minimum number of traders (liquidity requirement).

Barrier: Contract resolution. Who decides outcome?

Prediction Markets and the Blockchain

- RAIN is a decentralized prediction market infrastructure that allows anyone to create public or private markets across multiple blockchains.
- Create a prediction market with a single prompt: "Create a market on X by Y date."



- PlotX is a cross-chain prediction market protocol to make crypto-asset price predictions in hourly, daily, etc. time frames.

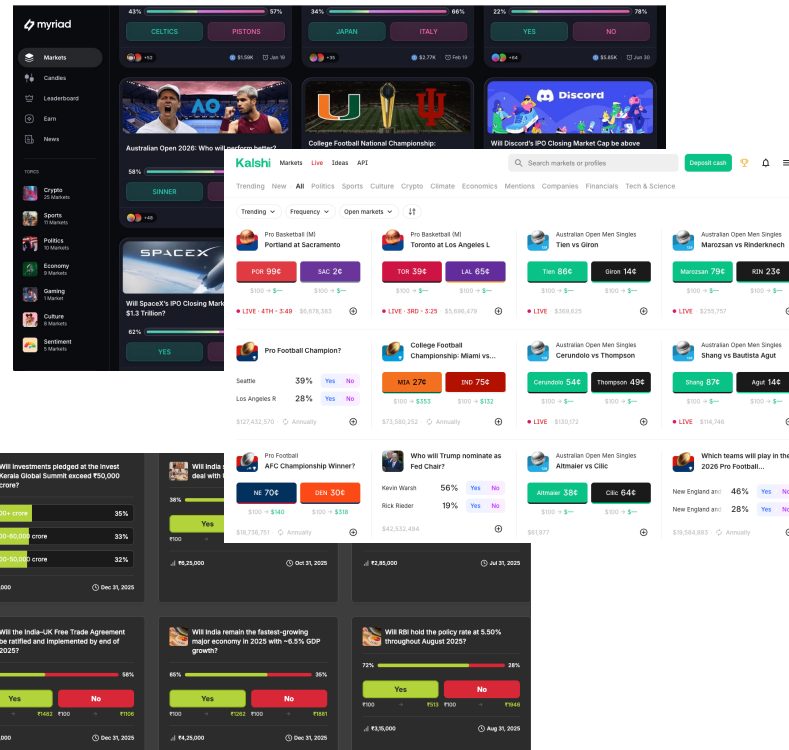
The decentralized prediction market ecosystem removes technical, financial, regulatory, and geographic barriers.

Why Prediction Markets Matter

Expanding Gambling Landscape

Event Categories

Politics & Elections
Economics & Finance
Cryptocurrencies
Sports
Entertainment
Culture
Science & Technology
Climate & Weather
Health
World Affairs
Social
Other



Because prediction markets cover a wide range of topics, they are more likely to engage individuals by offering betting opportunities aligned with their interests.

* <https://polymarketanalytics.com/markets?marketStatus=Active>; Note, Polymarket is not currently available to residence of the U.S.

** Some companies require customers to use separate platforms.

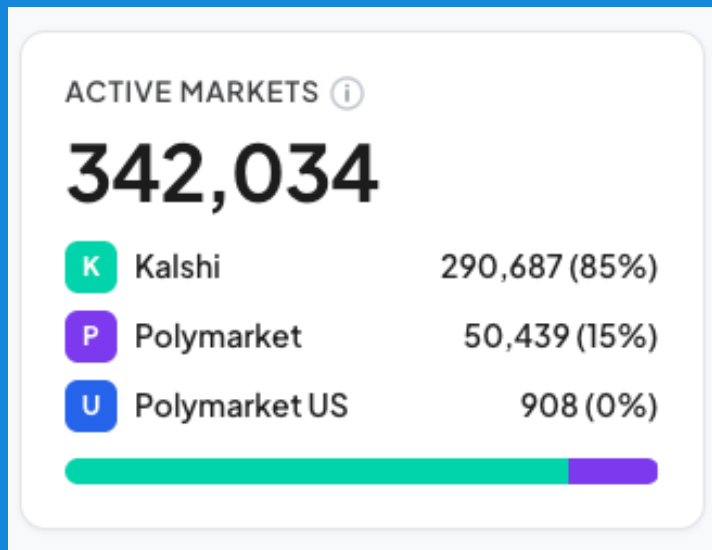
Source: Dune Analytics

Betting on Anything and Everything

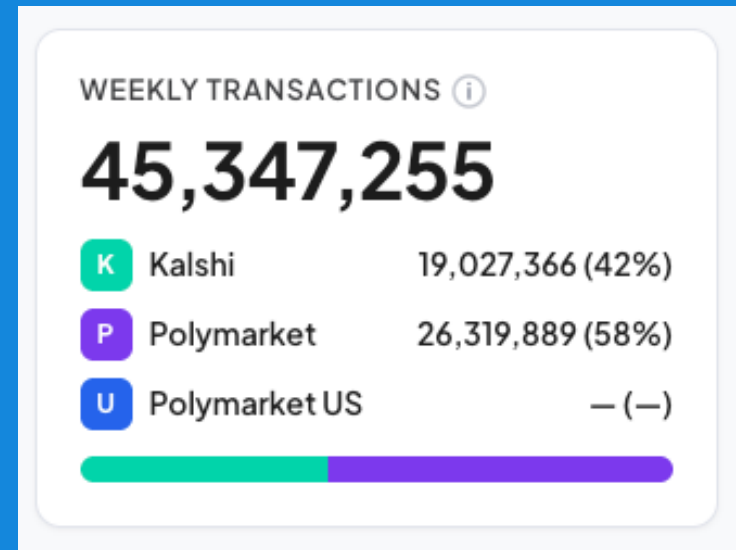
US x Iran ceasefire by...? December 31: 74% Yes No June 30: 54% Yes No \$96M Vol.	Augusta National Invitational - Winner Scottie Scheffler: 15% Yes No Bryson Dechambeau: 9% Yes No \$67M Vol.	BNK FearX Youth 32% Gen.G Global Academy: 69% Game 2 \$215K Vol. - LoL	FOKUS 75% Wildcard: 26% \$282K Vol. - CS2 - 9:00 PM	Largest Company end of April? NVIDIA: 97% Yes No Apple: 2% Yes No \$3M Vol. Monthly	Which company has the best AI model end of April? Anthropic: 91% Yes No OpenAI: 5% Yes No \$4M Vol. Monthly	Claude 5 released by...? June 30, 2026: 52% Yes No May 31, 2026: 29% Yes No \$2M Vol.
What will Trump say during news conference on April 6? Power / Strength: 90% Yes No Make a Deal: 96% Yes No \$9K Vol.	Strait of Hormuz traffic returns to normal by end of April? 16% chance Yes No \$3M Vol.	2026 FIFA World Cup Winner Spain: 16% Yes No France: 14% Yes No \$509M Vol.	Next Prime Minister of Hungary Péter Magyar: 65% Yes No Viktor Orbán: 36% Yes No \$47M Vol.	What will SpaceX's public ticker be? \$X: 51% Yes No Other: 43% Yes No \$4M Vol.	Largest Company end of December 2026? NVIDIA: 69% Yes No Alphabet: 14% Yes No \$2M Vol. Monthly	2nd largest company end of April? Apple: 74% Yes No Alphabet: 24% Yes No \$1M Vol. Monthly
Hungary Parliamentary Election Winner TISZA: 70% Yes No Fidesz-KDNP: 31% Yes No \$57M Vol.	Peru Presidential Election Winner Carlos Álvarez: 28% Yes No Keiko Fujimori: 24% Yes No \$7M Vol.	How long will the DHS shutdown last? 52+ days: 100% Yes No 60+ days: 88% Yes No \$1M Vol.	Eurovision Winner 2026 Finland: 37% Yes No France: 12% Yes No \$70M Vol.	Which company has the best Coding AI model end of April? Anthropic: 92% Yes No OpenAI: 4% Yes No \$34K Vol. Monthly	Which company has best AI model end of June? Anthropic: 66% Yes No Google: 23% Yes No \$3M Vol. Monthly	IPOs before 2027? SpaceX: 95% Yes No Cerebras: 90% Yes No \$5M Vol.
Who will leave Trump Administration before 2027? Tulsi Gabbard: 65% Yes No Kash Patel: 59% Yes No \$842K Vol.	Who will Trump announce as next Attorney General? Lee Zeldin: 47% Yes No Todd Blanche: 23% Yes No \$224K Vol.	Which party will win the Senate in 2026? Democratic Party: 52% Yes No Republican Party: 48% Yes No \$2M Vol.	Presidential Election Winner 2028 JD Vance: 18% Yes No Gavin Newsom: 17% Yes No \$493M Vol.	SpaceX IPO closing market cap above ___? >\$1T: 94% Yes No >\$1.2T: 93% Yes No \$1M Vol.	ChatGPT Outage by...? April 24: 77% Yes No April 17: 52% Yes No \$20K Vol. Monthly	Largest Company end of June? NVIDIA: 84% Yes No Apple: 8% Yes No \$4M Vol. Monthly
Highest temperature in Shanghai on April 6? 27°C or higher: 100% Yes No 22°C: <1% Yes No \$356K Vol. Daily	Highest temperature in Seoul on April 6? 11°C: 69% Yes No 12°C: 40% Yes No \$228K Vol. Daily	"The Super Mario Galaxy Movie" Opening Weekend Box Office 190-200m: 95% Yes No 180-190m: 4% Yes No \$2M Vol. Weekly	What will happen before GTA VI? Drake releases Ice Man: 86% Yes No New Rihanna Album: 63% Yes No \$20M Vol. Asked by Complex	US forces enter Iran by...? December 31: 100% Yes No April 30: 100% Yes No \$165M Vol.	US x Iran ceasefire by...? December 31: 100% Yes No May 31: 42% Yes No April 30: 27% Yes No \$96M Vol.	Iran x Israel/US conflict ends by...? December 31: 85% Yes No June 30: 59% Yes No \$15M Vol.
Highest temperature in Wellington on April 6? 22°C: 100% Yes No 23°C or higher: <1% Yes No \$117K Vol. Daily	Highest temperature in Chengdu on April 6? 22°C: 97% Yes No 23°C: 3% Yes No \$98K Vol. Daily	Elon Musk # tweets April 7 - April 14, 2026? 260-279: 17% Yes No 240-259: 15% Yes No \$642K Vol. Weekly	# of views of next MrBeast video on week 1? 70-80M: 49% Yes No 80-90M: 30% Yes No \$379K Vol. Weekly	Iran military action against ___ by March 31? UAE: 100% Yes No Oman: <1% Yes No \$6M Vol. Monthly	Will the Iranian regime fall by April 30? 4% chance Yes No \$22M Vol. Monthly	Trump announces end of military operations against Iran by ...? June 30: 71% Yes No April 30: 31% Yes No \$13M Vol.

Scale and Proliferation of Prediction Markets

How many active Event Markets exist today (4/3/26)?



How many weekly transactions are there (4/3/26)?



Why Prediction Markets Matter

Normalization of Gambling

Wagering on events is framed in financial terms (contracts, pricing, predictions, and hedging devices) and as an expression of the “wisdom of the crowd.”

Everyday events (such as weather, television shows, or financial events) can be wagered on, making gambling feel more natural and routine

Prediction markets are increasingly referenced in news coverage, social media platforms, and culture (e.g., the Golden Globe Awards), further embedding them into everyday life **without direct reference to gambling.**

- Gambling appears more legitimate and socially acceptable
- Participants are less likely to self-identify as gamblers
- Problematic behaviors may go unrecognized for longer periods

- Gambling shifts from special activities (e.g., a football game) to routine experiences
- The psychological barrier to gambling is lowered
- Frequency of gambling activity can increase

- The use of prediction market data in media and public discourse legitimizes their role in society

Why Prediction Markets Matter

Prediction Markets On Wall Street

Several fund managers, firms that manage investment funds, have filed applications with the Securities and Exchange Commission to launch prediction market exchange traded funds (ETFs).

- Exchange-traded funds (ETFs) are investment funds similar to mutual funds but trade on major stock exchanges such as the NYSE and Nasdaq.
- This would mirror the financial normalization pathway seen with cryptocurrencies: dedicated exchanges, to mainstream retail platforms, CFTC-regulated futures contracts, before achieving broad institutional legitimacy when Bitcoin ETFs began trading on major exchanges in 2024. (Cumulative trading in cryptocurrency ETFs have exceeded **\$2 trillion** since their launch.*)

Why Prediction Markets Matter

Proliferation of Gambling Exposure

Polymarket's **Situation Room** pop-up bar in Washington, D.C. transformed the sports bar model into a venue for real-world speculation, where patrons monitored and bet on political and global events in real time.

Features include:

- Wall-to-wall displaying live X feeds
- Flight radar
- Bloomberg terminals
- Polymarket prediction market odds showing real-time betting markets.



- Participants are immersed in information-rich environments and are influenced to trade on prevailing narratives.

Why Prediction Markets Matter

Regulatory Blind-Spot

- Prediction markets are regulated by the Commodity Futures Trading Commission (CFTC), a federally regulatory agency, whose mandate has traditionally focused on market integrity, fraud and manipulation, and fair access rather than consumer mental health or gambling-related harm.
- The markets are treated as derivatives (event contracts) rather than traditional gambling.
- Existing traditional future contracts: energy (oil, gasoline), agriculture (corn, soybeans), metals (silver, gold), etc. used to hedge risk.

Multiple states have issued cease-and-desist orders or launched lawsuits claiming prediction markets violate state gambling laws, especially where outcomes resemble sports wagering.

- The regulatory framework is not structured to identify, prevent, or respond to mental health conditions such as gambling disorder.
- Safeguards typical of gambling regulation, including responsible gambling requirements and coordination with public health agencies, are not systematically applied.
- Federal regulation of prediction markets limits state authority over gambling laws.

- If the Supreme Court rules that federal oversight of prediction markets preempts state gambling laws, states would generally lose the ability to block or regulate these markets under their own gambling frameworks.

Why Prediction Markets Matter

Market Integrity

A core concern in prediction markets is the potential use of non-public, material information to generate financial gain.

Maduro Capture Bet (2026)

A newly opened Polymarket account placed bets worth about \$32K regarding President Nicolas Maduro's downfall hours before President Trump ordered the operation, winning \$400K.

Israeli Military Operations (2026)

An Israeli reservist and a civilian were arrested on suspicion of placing bets on Polymarket using classified information.

Google's Year in Search (2025)

A Polymarket trader allegedly made over \$1M by placing near-perfect bets on Google's Year in Search.

From an information aggregation perspective, insider trading plays a role in incorporating private information into market prices, helping markets reflect information more quickly.

Why Prediction Markets Matter

Gambling Dictating the Future

When individuals can influence the outcome of an event they are betting on, prediction markets risk becoming self-fulfilling. Rather than forecasting the future, participants may act strategically to make the predicted outcome occur.

Objects Thrown at WNBA Games (2026)

Polymarket allowed wagering on the next day an object was thrown out on the court of an WNBA game. Some claim that these markets incentivize people to interfere and manifest the outcome. (Moral Hazard)

Mention Markets (2026)

Mention contracts were active on whether specific words would be said during Coinbase's earnings call. Near the end of the call, CEO Brian Armstrong intentionally referenced all five words, resulting in each contract resolving as "yes." (He made no bets in the prediction market.)

Thin Volume

In markets where liquidity (volume) is low, prices can be moved relatively easily, at least in the short term. This can create a feedback loop: a trade moves the price, media report the price change, the public is influenced, and the narrative is reinforced. (Mitt Romney trade on InTrade.)

Why Prediction Markets Matter

Information Incentives and Rumor Dynamics

Prediction markets can create incentives for rumor generation and speculative narratives, because attention and uncertainty drive trading activity. As a result, rumors, social media speculation, and breaking-news narratives can increase market volume or even lead to the creation of new markets.

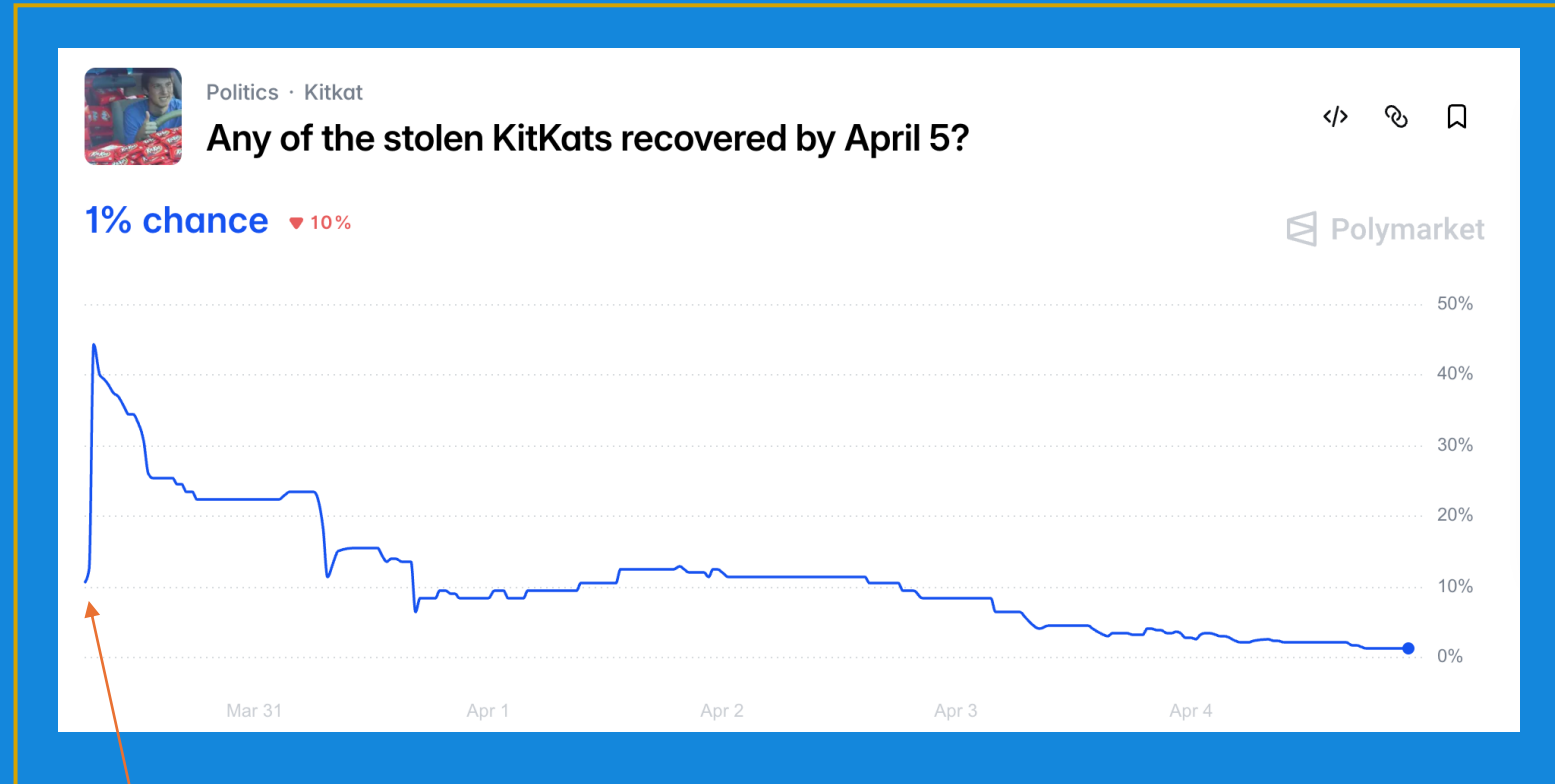
This dynamic reflects what is called an attention-liquidity feedback loop

- Rumors increase attention
- Attention attracts traders
- Trading activity increases market visibility
- Visibility encourages further speculation

The attention–liquidity feedback loop helps explain how prediction markets can amplify rumors rather than just aggregate information. Rumors become tradable narratives.

Speed of Prediction Market Event Contract Creation

12 tons of Kit Kat was stolen in Europe. The news went viral between March 29-30.

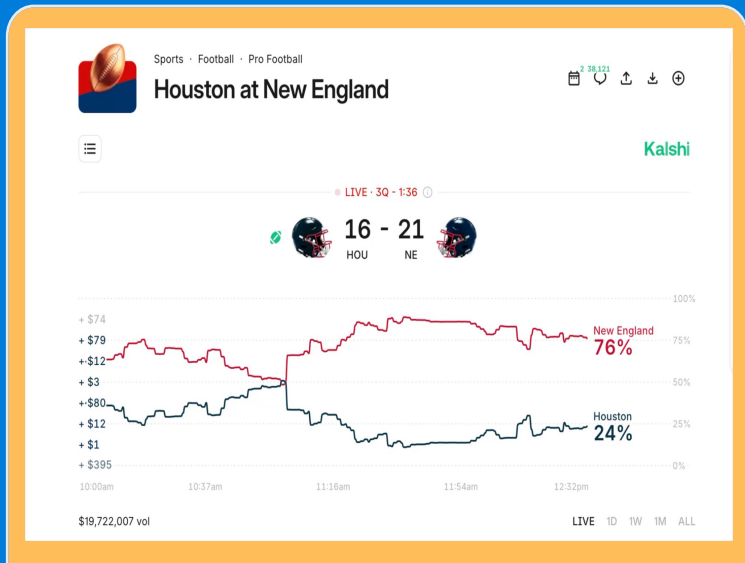


March 30, 7am

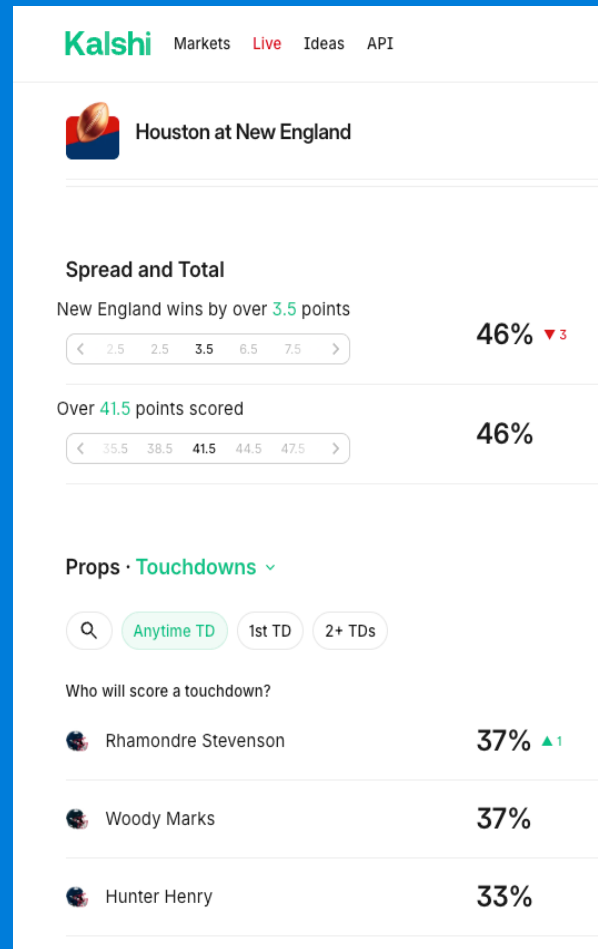
Why Prediction Markets Matter

Sustained Gambling Engagement

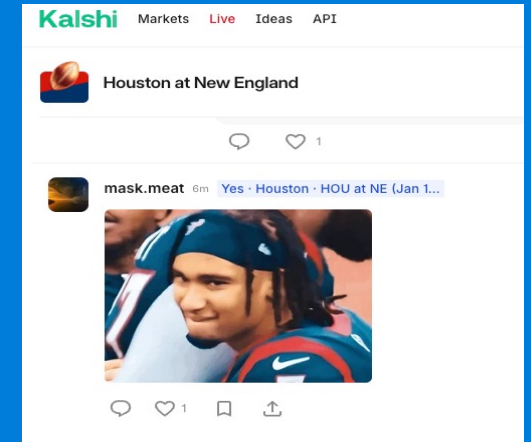
Sustained Attention: Live Betting Feed



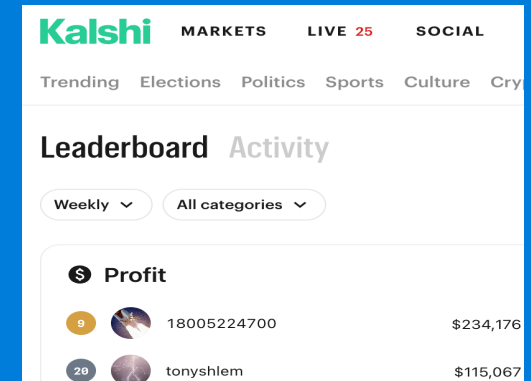
In-play wagering



Social



Leaderboard



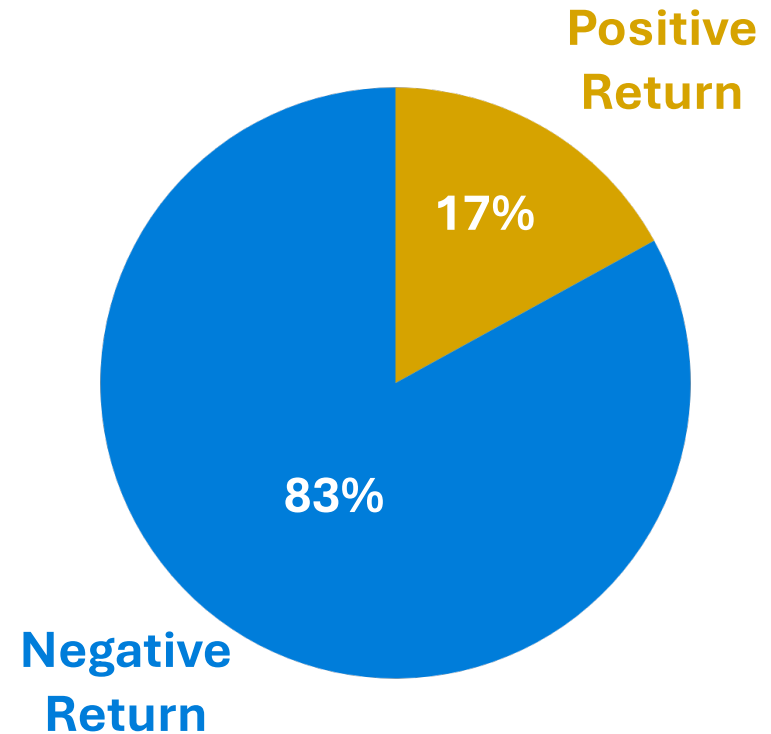
Why Prediction Markets Matter

Volatility-Driven Stress and Loss-Chasing Risk

Unlike traditional gambling activities, prediction markets expose participants to continuous price changes, resulting in ongoing unrealized gains and losses that can influence behavior and well-being.*

- Creates ongoing decision-making stress
- Reframes losses as poor timing rather than gambling outcomes
- Increases the likelihood of chasing losses
- Continuous price movement captures sustained attention

Polymarket negative / positive returns (balance) (1/18/2026)**



* It is true that placing a wager on a sports event weeks in advance can involve changing expectations; for example, due to player injuries or weather conditions. However, changes in value are not a defining feature of traditional gambling activities and are typically neither continuous nor as pronounced as in prediction markets.

** Source Dune Analytics.

Why Prediction Markets Matter

Short-Horizon Markets*

Short-horizon markets introduce rapid feedback and frequent contract wagering activity, creating reinforcement patterns similar to those observed in high-risk gambling products such as slot machines.

Short-Horizon Markets

Kalshi

15 Min Crypto

Bitcoin Up or Down - 15 minute

50% Up

Up Down

NEW

Polymarket

BTC 5 Minute Up or Down

51% Up

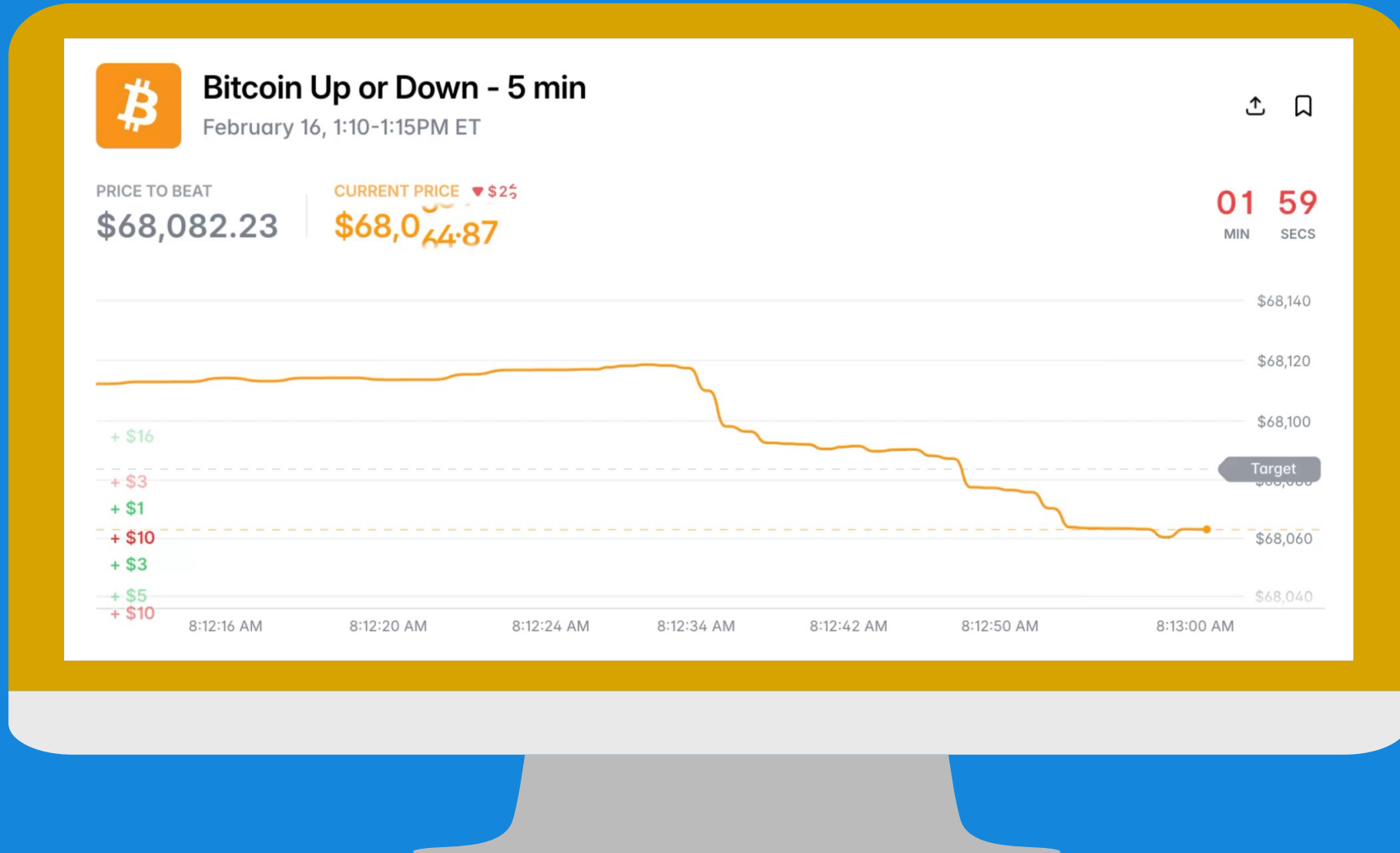
+\$2
+\$25

+\$2
+\$1 Up Down

LIVE \$20M Vol.

* In general, the ability to trade in and out of wagers in all outcome markets effectively creates extremely short-horizon markets, because once a position is closed, the outcome of the wager is immediately determined.

5 Minutes of Constant Engagement



Why Prediction Markets Matter

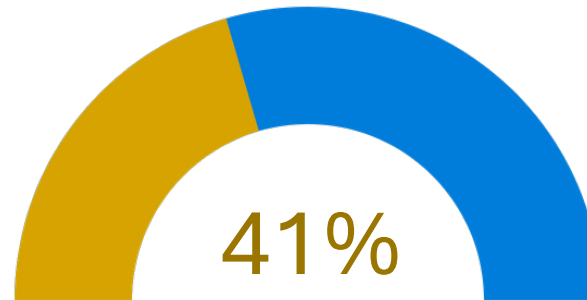
Gambling-Related Harm

The expansion of gambling activities associated with prediction markets might increase gambling-related harm by both drawing in a broader population that may not otherwise engage in traditional gambling and increasing the frequency of gambling among those who already do.

Distribution of Polymarket Contracts by Category*

Sports	39.9%
Cryptocurrencies	27.7%
Politics & Elections	27.6%
Culture	2.5%
Economics & Finance	0.8%
Science & Technology	0.8%
Climate & Weather	0.5%
Other	0.1%

% of Clients on Polymarket Wagering in 5 Categories*



- Low friction to betting across categories.

Low-Barrier Betting Profile*

- On Polymarket, roughly 61% of bets are under \$50, with 30% between \$0-\$10 and 31% between \$10-\$50.
- This pattern may suggest participation by casual or low-stakes users, potentially lowering barriers to entry and creating pathways toward more frequent or higher-risk gambling over time.

* Global Polymarket, week of 1/5/26. Note, residences of U.S. cannot currently access Polymarket. Kalshi is much more concentrated on sport-related gambling activities.



The Science of Prediction Markets

The Jelly Bean Experiment

- James Surowiecki, author of *The Wisdom of Crowds*, discusses The Jelly Bean Experiment.



Wisdom Of The Crowds

Wisdom Of The Crowd is the idea that a group's collective judgment can be more accurate than that of any individual, especially when people have diverse, independent information and their views are effectively aggregated.

Four criteria underlie this process

Diversity

- Market participants have different information and perspectives.
- Prediction markets don't fully satisfy this requirement as they currently skew towards young, male, with an interest in gambling-like activities.

Independence

- Market participants form opinions without being overly influenced by others.
- Prediction markets don't satisfy this condition due to attention-liquidity feedback, social media amplification, and whales that dominate price discovery.

Decentralization

- Market participants draw on local or specialized knowledge.
- Prediction markets generally satisfy this condition.

Aggregation

- There is a mechanism to combine individual opinions into a single outcome.
- Prediction markets generally satisfy this condition, provided there is sufficient volume (liquidity)

Economic Rationale for Prediction Markets

Hayekian Knowledge Problem

- Knowledge in society is decentralized and cannot be efficiently collected by a single authority. Prediction markets overcome this by using prices as signals and incentives to aggregate dispersed information.

Rapid Information Discovery

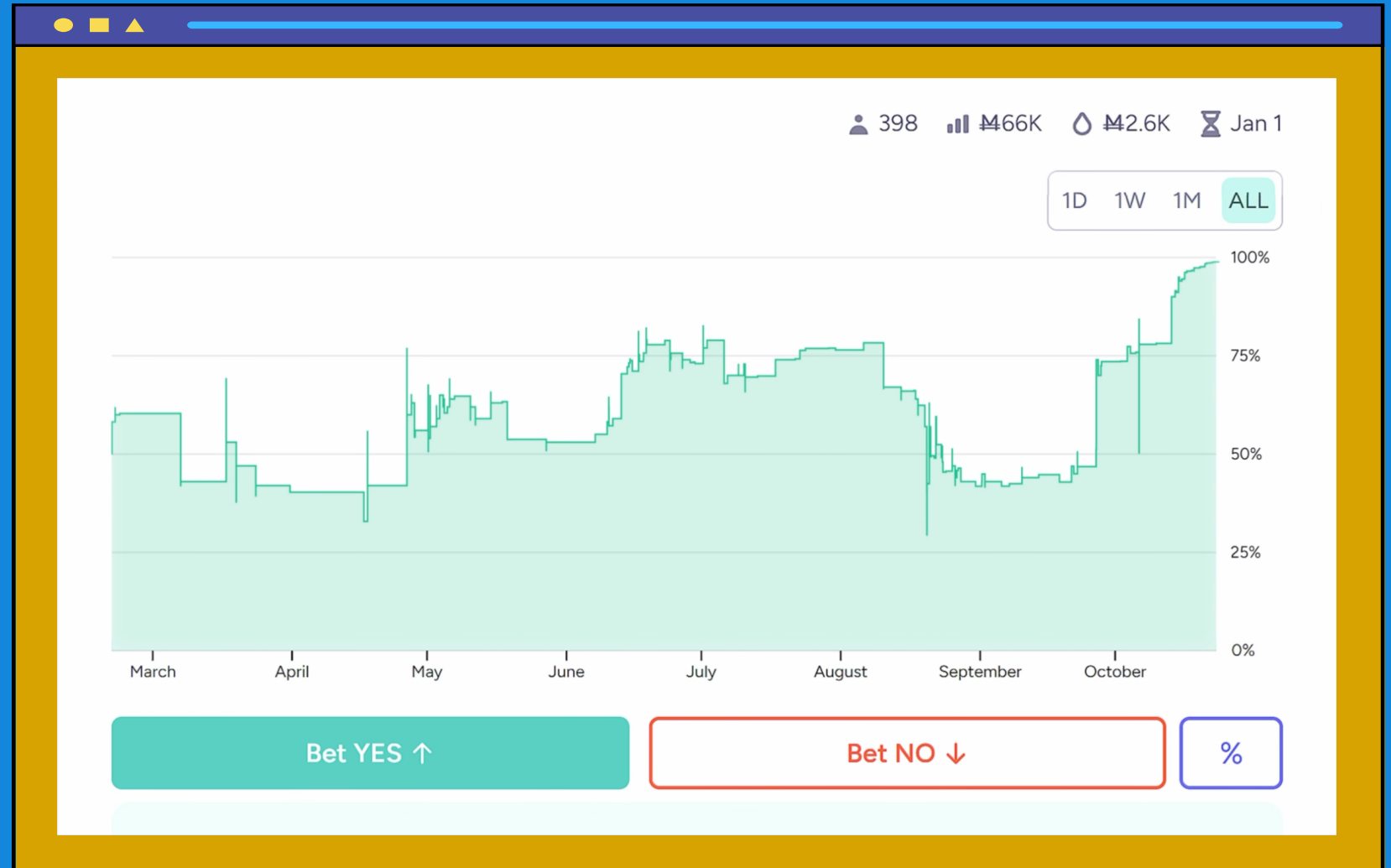
- Prediction markets reveal private insights and emerging expectations far more rapidly than traditional data-collection methods such as surveys, signaling important developments before they become common knowledge.

Insurance or Hedge Against Risk

- A participant exposed to a particular risk can hedge by taking positions that pay off when adverse outcomes occur. For example, a farmer worried about drought could buy contracts that profit in low-rainfall scenarios, offsetting potential losses.

The Logic Of Prediction Markets

Manifold Markets, a social Prediction Market where individuals are incentivized by reputation, intellectual engagement, skill development, and charitable contribution.





Early Indicators from Surveys

Why Prediction Markets Matter

Treatment Challenges

Oregon Gambling Treatment Provider Survey Findings (2025)

Gambling-related harm might increase when treatment frameworks designed for traditional gambling are applied to prediction markets, which lack clear boundaries, venues, or abstinence cues. Wagering opportunities are diffuse and often framed in financial terms.

Clients report **difficulty disengaging from newer forms of gambling** (not limited to prediction markets), which are continuously available and embedded in everyday digital environments.

When clients perceive their activities as involving financial instruments rather than gambling, it can be harder to address problematic behavior because the activity is viewed through a **veil of legitimacy or respectability**.

Some clients believe they can outsmart the market, viewing their **gambling as a function of intelligence or skill** rather than chance, which reinforces continued engagement.

Clients may feel out of place in group treatment settings where discussions focus on more traditional forms of gambling, making it **harder for them to relate or fully engage in treatment**.

Gambling Participation Rates (2025)*

Percent of Arizona Adults
Who Engage in
Cryptocurrency and related
Activities

17%

Males are about three times as likely as females to engage in cryptocurrencies and related activities.

Percent of Arizona Adults
Who Engage with
Prediction Markets

5%

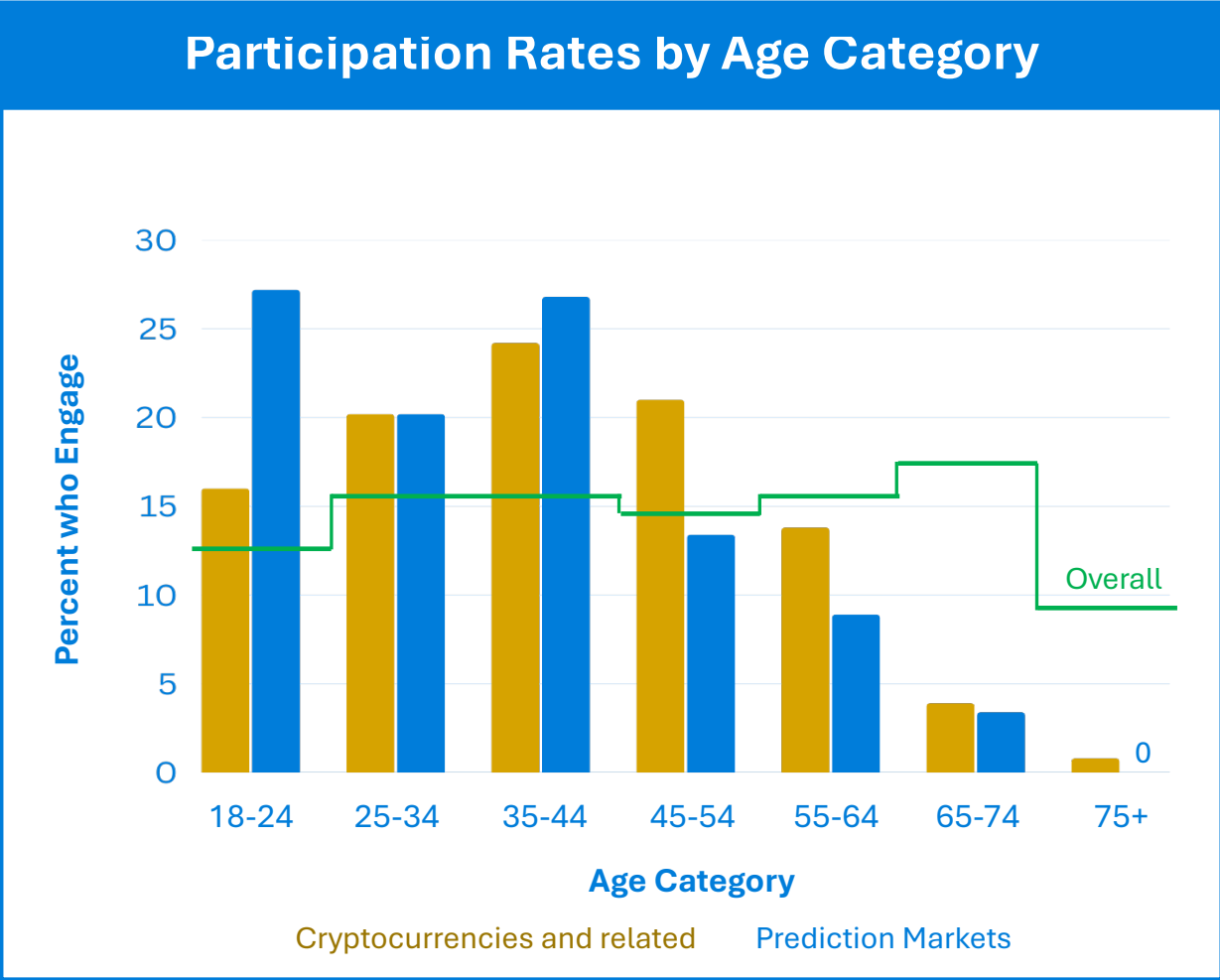
Males are about 2.5 times as likely as females to wager on prediction markets.

Ipsos Survey

Just 3% of Americans and 8% of men ages 18-24 report using one in the past six months.

Gambling participation rates, by age groups (2025)*

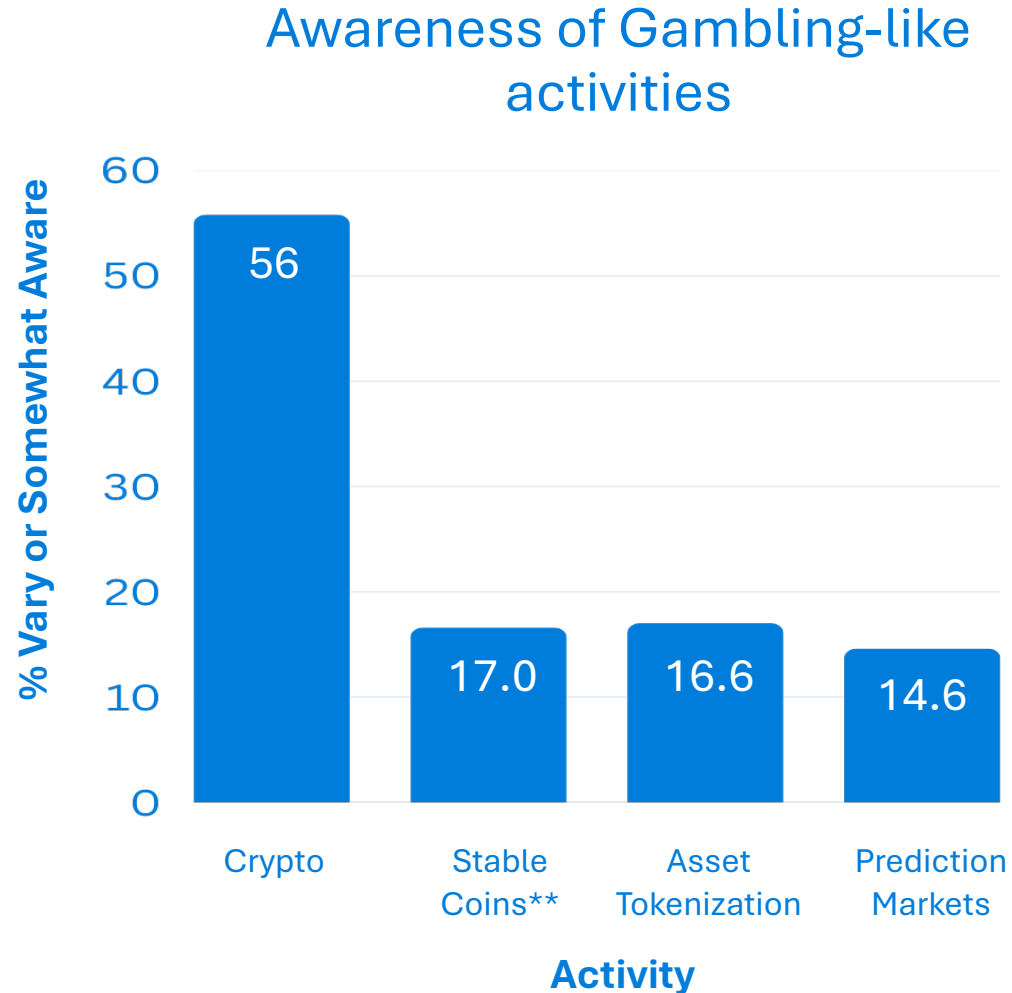
Participation in cryptocurrencies and prediction markets are disproportionately concentrated among younger adult Arizonans.



* Arizona Gambling Behaviors, Attitudes, and Awareness of Problem Gambling Survey (2025)

Gambling awareness rates (2025)*

- Fifty-six percent of adult Arizonans report being very or somewhat aware of cryptocurrencies and related activities.
- About one in seven adult Arizonans report being at least somewhat aware of stablecoins**, asset tokenization, or prediction markets.



Ipsos Survey

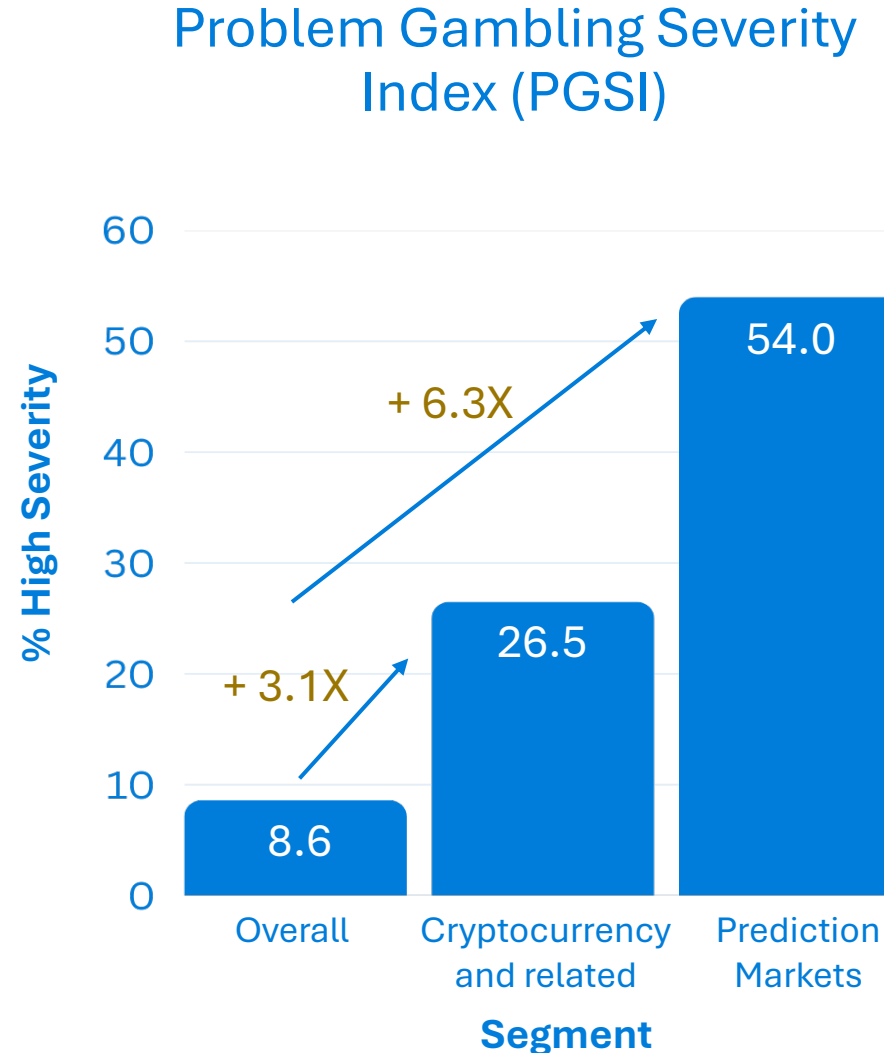
21% reports being at least somewhat familiar with prediction markets.

* Arizona Gambling Behaviors, Attitudes, and Awareness of Problem Gambling Survey (2025)

** A stablecoin is a type of cryptocurrency designed to maintain a stable value, typically by being pegged to an external asset such as the U.S. dollar. Stablecoins themselves are not typically objects of speculation in the way volatile cryptocurrencies are. However, they are widely used in DeFi ecosystems and can facilitate gambling and speculative activities by enabling fast, low-friction transactions.

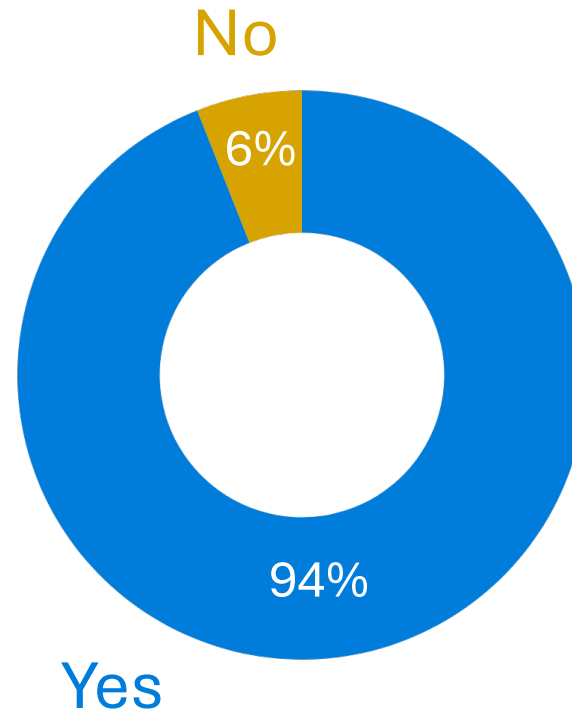
Problem Gambling-Related Harm*

- Adult Arizonans who engage in cryptocurrencies and related activities, as well as prediction markets, have significantly higher rates of high-severity gambling risk.
- In particular, more than half of adult Arizonans who engage with prediction markets have high-severity gambling risk.



Oregon Treatment Provider Readiness to Address Non-Traditional Forms of Gambling *

Do you feel like you need **more** training to better address clients who have reported these non-traditional forms of gambling?



* Oregon Gambling Treatment Provider Findings (June, 2025)



Closing Thoughts

Are Prediction Markets Gambling?

Gambling Elements

- Participants stake money by purchasing contracts (**Risk**).
- Outcomes are uncertain and at least partially driven by randomness (**Uncertainty**).
- Outcome offers potential value (**Reward**).

Ipsos Survey

Just 4% of Americans and 7% of men ages 18-24 say that prediction markets are good for society,

Time horizon

- Event contracts with short time horizons are more gambling-like than those with longer time horizons.
 - Short horizon: 5 minutes crypto predictions
 - Long horizon: Will SpaceX IPO before 2027

Outcome structure

- Binary outcomes make activities more gambling-like because they reduce uncertainty to a simple win-or-lose payoff, similar to traditional bets.
- Continuous outcome contracts, for example, "What will the unemployment rate be in Q3?" where payout scales with how close your prediction is to the actual number, do preserve degrees of correctness. (Manifold Markets have this type of scalar / numeric market.)

Skill versus Chance

- Not all wagering is equally gambling-like. The degree to which outcomes depend on skill versus chance is one of the most important psychological dimensions shaping how gambling-like an activity is.
- An outcome of a slot machine versus the event contract: "Will a major volcano eruption (VEI > 6) occur in 2026."

Gambling and Investing: Key Differences

Dimension	Gambling	Investing
Objective	Entertainment or chance-based monetary gain.	Wealth building often related to underlying economic activity and the production of goods and services.
Time commitment	Often ranges from almost immediate (e.g., seconds) to short-term (e.g., one week).	Typically, years to decades.
Expected value	Typically negative when wagering against a house, as odds are structured to favor the operator.	Often positive, as investments are tied to capital accumulation and long-term economic growth.
Role of skill	Ineffective in purely chance-based games and limited when terms of bet (such, as odds) are determined by professionals.	Financial analysis, risk management, and diversification are skills that can improve long-term investment outcomes.



**THANK
YOU!**

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