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**POLITICAL EXCHANGE**

By JUSTIN WOLFERS

**A Split Decision With a Clear Winner**

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With Barack Obama and Hillary Clinton trading victories in North Carolina and Indiana, it's tempting to call Tuesday's primary vote a split decision. Instead, political prediction markets have declared Sen. Obama a clear winner.

Sen. Obama began Election Day rated a 76% chance to win the Democratic nomination. By the time the poll results were finalized, [the markets had](#)

[reassessed his chances at 89%](#)<sup>1</sup>. This 13 percentage-point rise makes Tuesday's primaries the best day of the campaign for Sen. Obama since the surge of momentum he enjoyed after the Iowa caucuses.

On the flipside, [Sen. Clinton's chances of securing the nomination were cut in half, falling from 22% to 10%](#)<sup>2</sup>.

Sen. Obama's victory in North Carolina wasn't surprising, as he had begun the day rated a 93% chance to win. His 14-point winning margin was perhaps somewhat stronger than had been expected.

The result in Indiana had been expected to be as much a foregone conclusion for Sen. Clinton as North Carolina was for Sen. Obama, and she began the day given a 93% chance of winning Indiana. Thus the result was a substantial surprise and the virtual dead heat a big positive for Sen. Obama.

Watching the television coverage of the vote count, I couldn't help but note the differences between the narrative suggested by the prediction markets and that suggested by the talking heads. Among television analysts, there is a very binary sense of the results: Races are either "called" for one candidate, or they are "too close to call." And when they are too close to call, there is not much to do but pad, finding dozens of ways of noting that the race could go either way.

These binary "calls" yielded some conflict, with CBS calling Indiana for Sen. Clinton shortly after 8 p.m., while the other networks kept Indiana in the "too close" column into the early hours of the next morning.

Interestingly, when CBS made its early call, prediction markets still rated Sen. Obama a 1-in-14 chance to win. His stock dipped briefly in response to that call, but within 15 minutes, it became clear that CBS didn't have any special information, and Sen. Obama's stock quickly recovered to its previous level. Thus political prediction markets clearly suggest that CBS analysts took a pretty big gamble.

The propensity of committees of expert analysts to be overconfident is a widely documented phenomenon, and if the CBS bigwigs are interested, I'm willing to bet that greater reliance on the wisdom of crowds can serve as a useful counterweight. It seems pretty unlikely that the network executives

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intended their station to risk a 14-to-1 bet.

CBS analysts were not the only ones taking a calculated risk on the early data: Sen. Clinton declared victory in Indiana at 10:38 p.m. EDT. Even as she was speaking, prediction markets still rated Sen. Obama a 1-in-9 chance of winning that state.

The "decided" versus "undecided" dichotomy favored by the networks missed much of the drama of the count, as the flow of new data yielded a far more nuanced, and exciting narrative. Sen. Obama's chances of winning Indiana hovered between 7% and 12% for much of the evening, but the midnight release of numbers pointing to his strong showing in Lake County caused his stock to soar, rising briefly above 40%. As it became clear that these earliest numbers came from urban areas in a county expected to favor Sen. Obama, his stock tracked slowly downward. When the subsequent set of numbers from Lake County were reported, they yielded good news for Sen. Clinton and her chances of winning rose to 99%. Minutes later, CNN called the race for her.

What are the broader implications of these late primaries? As Sen. Clinton's chances of becoming the Democratic nominee plummeted, and Sen. Obama's soared, the chances of the ultimate Democrat candidate winning the general election remained unchanged. Taken together these two facts yield the interesting implication that perhaps there is not much difference in the electability of Sen. Obama and Sen. Clinton.

Looking forward to November, an Obama-McCain race seems increasingly likely. And Sen. Obama is the early betting favorite.

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