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POLITICAL EXCHANGE

By JUSTIN WOLFERS

Preparing to Parse a Split Decision

Hillary's Fortunes Are on the Rise

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With all eyes turned toward today's Democratic primaries in Texas and Ohio, there is widespread agreement that the results may well make or break the Clinton campaign. Equally, it isn't quite clear what sort of outcome is required to keep her candidacy viable.

Former President Bill Clinton set the stage for these contests, arguing that "If she wins Texas and Ohio I think she will be the nominee."

Amid all the hand-wringing and prognosticating over whether New York Sen. Hillary Clinton will take home the double victories in Texas and Ohio tonight that would secure her a future in the Democratic race, one possibility has been underanalyzed: What about a split decision?

That's looking more likely as the deadline nears.

The latest trading in political prediction markets -- WSJ.com runs [a free political market](#)¹ -- suggests that [Mrs. Clinton is around a four-in-five chance to win the Ohio primary](#)², and her chances have improved as Sen. Barack Obama's expected surge in the polls never quite materialized.

While the polling trend in Ohio has favored Mr. Obama for the past few weeks, Mrs. Clinton's initial poll lead was too large, and the pro-Obama trend appears to have run out of steam. As Mrs. Clinton has held her ground (or lost ground only slowly) in Ohio, her odds of winning have improved.

Turning to Texas, the markets give Mr. Obama a slight edge, and [he is currently assessed at a 57% chance](#)³ to win the primary in the Lone Star state. There is no trading on the outcome of tonight's caucuses -- the second part of the Texas two-step, but Mr. Obama has tended to outperform Mrs. Clinton in prior caucuses suggesting that the probability of him winning the majority of the Texas delegates is probably a bit stronger.

In this case the prediction markets are at odds with the latest polls, which put Mrs. Clinton slightly ahead in Texas. According to the polling average put together by [RealClearPolitics.com](#)⁴, Mrs. Clinton currently holds a 1.7 percentage point lead, and was the preferred candidate in a majority of the final polls taken over recent days.

Today's remaining races -- in Vermont and Rhode Island -- are unlikely to be anywhere near as dramatic. Mr. Obama is a prohibitive favorite to win in Vermont (with [markets assessing him as a 95% chance](#)⁵), while [Mrs. Clinton is a 90% chance to win in Rhode Island](#)⁶.

The best way to integrate across all of these evolving sub-plots is to watch the market's assessment of who will the nomination. It quite clear that Mrs. Clinton has outperformed expectations at the very tail-end of the campaign, and while her chances of securing the nomination had dipped as low as 15% earlier this week, [over the past 24 hours they have risen sharply to 21%](#)⁷.

An intriguing new prediction market contract also speaks to Hillary Clinton's potential "lifeline". This market assesses the likelihood of her winning all three of the large remaining contests -- Ohio, Texas, and Pennsylvania. Prediction markets currently assess her as being [about a one-in-five chance of winning these three contests](#)⁸.

If these three contests were simply independent events, then the price of this contract should be equal to the product of the probability she wins each contest. Yet multiplying these probabilities (Ohio: 80%; Texas: 43% and Pennsylvania: 40%) yields a 14% probability, which is slightly lower than the market price, suggesting a mild positive correlation between these events. My interpretation of these numbers is that markets believe that a strong showing today will lead to some momentum in Pennsylvania, with the odds shortening to perhaps a 50-50 bet.

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In fact, given how weak the implied correlation between these events is, there is a real chance that tonight's showdown will yield a split decision. And then we need to sort out the implications of a result in which both campaigns will want to declare themselves the winner.

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