WAKE FOREST UNIVERSITY

Department of Economics

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We are responding to the Commission's Advanced Notice of Proposed Rulemaking (ANPRM) regarding prediction market regulations. We are economics professors at Wake Forest University, and we have been studying these markets for thirty years. We have written academic articles about the history of prediction markets, whether it is possible to manipulate these markets, corporate prediction markets, and practices of illegal sports bookmakers in New York city. We have also written opinion articles about these markets and are regularly quoted in major media including the Wall Street Journal, Washington Post, Financial Times, The Economist, New Yorker, Bloomberg, Fortune, NPR, CBS News, CNN, and CNBC. We have also taught university level courses on prediction markets for twenty years.[1]

We believe academic work, rather than anecdotal examples and theoretical and unproven claims, are the appropriate lens to understand prediction markets. And decades of research based on statistical analysis, experiments, event studies and historical data has shown time and again that these markets work well and that there is little rigorous evidence for oft-stated criticisms.[2]

These markets have great potential to provide social benefit.[3] Academic research has shown that these markets are the gold standard of forecasting of elections (over thousands of political contests spanning multiple countries), economic and financial outcomes, and have assisted in corporate decision-making.[4] Theoretical concerns about these markets, such as whether they can threaten election integrity or can be manipulated, have been shown to have little empirical basis in the centuries long experience with these markets.[5]

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[1]See https://users.wfu.edu/strumpks/ and https://tommy-leung.com/ for a list of papers, media links, and opinion pieces.
[2]Arrow et al (2008).
[3]Crane and Strumpf (2022a, 2022b).
[4]Cowgill and Zitzewitz (2015), Rhode and Strumpf (2004), Rhode and Strumpf (2013), Wolfers and Zitzewitz (2004), Strumpf (2009), Strumpf and Crane (2024).
[5]Rhode and Strumpf (2008).

The markets can best be thought of as akin to other forms of socially productive risk-taking such as stock markets and insurance contracts. Like the former they help us understand the likelihood of different events occurring which in turn can aid in the allocation of capital across investments. And like the latter these markets can be used to hedge risk. For example, a homeowner who plans to sell their home at a future date could use a prediction market contract linked to local real-estate conditions to reduce their uncertainty and lock-in a price.[6] This is distinctive from pure gambling, such as state-run lotteries, which do not provide such social benefits.

Prediction markets can help inform citizens and thus enhance our democracy. This is true even for those who do not directly trade on these markets. They provide real-time, free information about the likelihood of thousands of topics spanning elections, financial topics, current events, scientific questions and more. Anyone can see this information at a price of zero dollars and quickly leverage the information generated by thousands of well-informed traders. This information complements and enhances traditional media coverage of these same topics. We have also seen how even play money versions of these markets can lead to greater engagement of students in current events in our classes.[7]

With this as background, the question is what is the appropriate regulatory framework going forward? Given the social benefits these markets provide, regulation should address only those issues which have strong grounding in the scientific literature (not cherry-picked examples from doomsayers). We suggest guardrails which protect retail traders and safeguard the socially beneficial aspects of prediction markets. This would include rules about the use of material non-public information (MNPI), manipulation, and prevention of minors or other vulnerable individuals from trading. The CFTC has experience with these issues (as listed in several of the Core Principles of Sections II.A. and II.E. of the Commission's Proposed Rule from the Federal Register that accompanies this ANPRM)[8], and regulated exchanges such as Kalshi and PredictIt adhere to these rules and include know your customer (KYC) as a specific mechanism to address these issues. In contrast

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[6]Some example of these markets are listed here, https://kalshi.com/category/economics/housing (accessed 29 April 2026) and https://polymarket.com/predictions/real-estate (accessed 29 April 2026).
[7]A write-up of one of our first educational markets from 2008 is here, https://www.midasoracle.org/2008/05/09/prediction-markets-in-the-classroom-inkling-markets/ (accessed 29 April 2026) and TV news segment discussing the educational benefits of these markets from 2026 is here, https://myfox8.com/news/north-carolina/piedmont-triad/triad-expert-encourages-people-to-look-into-prediction-markets-even-if-theyre-not-betting-learning-a-lot-of-current-events-at-a-price-of-0/ (accessed 29 April 2026).
[8]https://www.cftc.gov/sites/default/files/2026/03/2026-05105a.pdf (accessed 29 April 2026).

various state gaming regulators, which have claimed jurisdiction over these markets, have little expertise or experience over these topics.

In short what must be avoided is a fragmented regulatory landscape enforced by those lacking expertise. If this route is taken there will be confusion and a proliferation of the ills that so far have been relatively minor.

What is an even greater mistake would be to over-regulate these markets. We know from our experience with sports betting that this will simply lead the markets to migrate offshore out of the reach of regulators: where there is demand, supply will arise to meet it.[9] This is the worst of all worlds, where trading platforms race to the bottom and there is little in the way of regulatory control or oversight. Appropriate policy should always engage with reality: the choice is not whether to have or not have these markets, centuries of experience show these markets will aways exist. Rather the choice is whether we want a US-based regulated industry or one outside of our country shaped by forces we cannot control. Prudent and light touch regulation will allow the US to continue to be a world leader in providing safe, efficient and socially beneficial prediction markets, all to the benefit of our citizens and economy.

Sincerely,

Tin Cheuk (Tommy 梁天卓) Leung
Associate Professor of Economics
Wake Forest University
https://tommy-leung.com/

梁天卓

Koleman Strumpf
Burchfield Presidential Chair of Political Economy
Wake Forest University
https://users.wfu.edu/strumpks/

Koleman Strumpf

[9]Strumpf (2003) and Strumpf (2004).

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