

Discussion of
Using information markets in grant-making.
An assessment of the issues involved and an application to Italian
banking foundations

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 - ⇒ When applied to grant-making activities, they can contribute both to identify and evaluate new projects (idea markets), and to address possible deliberative failures (decision markets)
 - ⇒ Under a market design that guarantees competitiveness and informational efficiency, prices can be interpreted as aggregated indicators of agents' beliefs about the likelihood of a given outcome

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 - ⇒ The definition of the key areas of intervention
 - ⇒ The creation of idea markets for eliciting and evaluating new projects within each of the identified areas
 - ⇒ The use of decision markets to support the grant-making deliberation process

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 - ⇒ Is there a role for information markets already at this stage?

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 - ⇒ If biases of this type are sufficiently severe, the resulting imperfections of the pricing mechanism may significantly affect market outcomes; i.e. the ability of the market to effectively select the most valuable proposals

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- Index securities – whose prices represent the expected achievement conditional on the corresponding project being funded – can be used to evaluate the effectiveness of alternative projects
 - ⇒ The expected effectiveness of different projects in achieving their goals is evaluated based on the ranking of the index securities prices, but it is not obvious that this ranking is an ideal measure of the effectiveness of the different projects
 - ⇒ Market outcomes can in fact be biased due to market participants' potential selection problems: e.g. projects that are designed in a way to gain popular support may attract the interest of most market participants, without necessarily being the most effective ones

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 - ⇒ Also in this case the pricing of the index securities, based on which the size of the budget is decided, may be subject to the possibility of market manipulation outlined above
 - ⇒ Furthermore, resorting to reverse auctions and pay-for-performance schemes may indeed foster cost-effectiveness, requiring however at the same time potentially important monitoring costs

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 - ⇒ The resulting prices may not be accurate indicators of the 'quality' of different projects

Thank you!