

# UBC Election Stock Market

<http://esm.ubc.ca>

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# What is an Election Stock Market?

- It is a financial *futures market*.
- The ultimate value of the contracts that are traded is determined by an election outcome.
- Participants invest their own money.
- Participants buy and sell listed contracts.
- Participants can earn profits or make losses.
- The market provides a prediction of the election outcome as traders reflect on all available information when carrying out trades in the market.
- Traders have a financial incentive to predict the election outcome accurately (and thus earn a profit), even if they prefer another outcome.

# How accurate are the market predictions?

## UBC-ESM for the 2000 Canadian Federal Election

Political Party	Seats Share			Vote Share		
	Pred.	Actual	Error	Pred.	Actual	Error
Liberal Party .....	51.0%	57.5%	6.5%	40.8%	39.3%	0.9%
Canadian Alliance ...	22.8%	21.9%	0.9%	25.5%	27.2%	1.7%
Bloc Québécois .....	15.2%	12.3%	2.9%	10.7%	10.1%	0.6%
Progr. Conservatives .	4.7%	4.0%	0.7%	12.2%	12.2%	0.0%
NDP .....	4.0%	4.3%	0.3%	8.5%	8.9%	0.4%
Other Parties .....	0.3%	0.0%	0.3%	2.3%	2.0%	0.3%
Average Abs. Error			1.8%			0.7%

- The UBC-ESM has been able to outperform several polls.
- The market provides a prediction for seats shares, which polling firms typically do not.

## How does the market work?

- You can buy shares in political parties, for example, a contract in the popular vote share of the Liberal Party.
- If traders think that the Liberal Party will receive a popular vote share of 33.5%, this contract would trade at 33.5 cents.
- Each contract has a symbol, e.g., CA06.P.LIB
- Traders observe the current “bid” and “ask” prices for current offers to buy or sell contracts.
- Traders can buy or sell contracts immediately at current prices, or they can place orders to buy at lower prices (“bids”) or sell at higher prices (“asks”), with specific expiry dates on these offers.

## How can I make a profit?

- “Buy low, sell high”
- If you buy one share of CA06 . S . NDP today at the current price of 7.3 cents, and a week later the market price has risen to 8.1 cents, you can sell the share and earn a profit of  $8.1 - 7.3 = 0.8$  cents.
- If you have bought the same share at 7.3 cents and you think the NDP will win more than 7.3% of the seats in parliament, you can hold the share until the election. If the actual seats of the NDP turns out to be 9.8%, you earn  $9.1 - 7.3 = 2.5$  cents.
- “Buying and holding” is known as taking a *long position*.

## How can I make a profit?

- What if you think a contract is currently overvalued?
- Take a *short position*: speculate on a falling price.
- Buy a *unit portfolio* of \$1, e.g., in the Popular Vote Market. A unit portfolio contains 1 share each of all the contracts in this market, which by definition must sum to 100%.
- Let's say you think that CA06 . P . BLQ is overvalued at its current price of 21.4 cents. If you sell this contract, you gain 21.4 cents. On election night it turns out that you were right, and the Bloc only gets 17.5% of the votes.
- Now the remaining 4 contracts from your unit portfolio (CA06 . P . LIB + CA06 . P . CPC + CA06 . P . NDP + CA06 . P . OTR) will be worth  $100.0 - 17.5 = 82.5$  cents.
- With an investment of 100 cents, you have gained  $21.4 + 82.5 = 103.9$  cents, a profit of 3.9 cents!

## How can I participate?

- Minimum investment amount per trader is \$25.
- The maximum investment amount is \$1,000.
- There are no transaction fees.
- Open an account, pay by credit card or cheque.
- Sign up online at [esm.ubc.ca](http://esm.ubc.ca).
- Market operates 03:00–23:00 every day until Jan. 22.
- After the election on January 23, 2006 and the return of the writ, the election stock market is liquidated based on prices determined by the election outcome.

# Federal Election 2006

## 1 Seats Market

- Payouts are determined by the seats share that parties win in the House of Commons in Ottawa
- Contracts: CA06.S.LIB, CA06.S.CPC, CA06.S.BLQ, CA06.S.NDP, CA06.S.OTR

## 2 Popular Vote Market

- Payouts are determined by the popular vote share.
- Contracts: CA06.P.LIB, CA06.P.CPC, CA06.P.BLQ, CA06.P.NDP, CA06.P.OTR

## 3 Majority Government Market

- Payouts are determined by which party wins a governing majority in the House of Commons (155 seats or more). One contract pays \$1, all other contracts pay \$0.
- Contracts: CA06.M.LIB, CA06.M.CPC, CA06.M.OTR







# Day Traders Wanted!

- Are you interested in Canadian politics?
- Are you willing to put your money where your mouth is?
- Are you ready to beat the pollsters?
- Would you like to learn about futures markets?
- Sign up for the UBC Election Stock Market today!

[esm.ubc.ca](http://esm.ubc.ca)