

Risk Regulation Seminar

Tuesday, January 29, 2008

4:30 - 6:00 PM

G 50, Jon M. Huntsman Hall

The Wharton School of the University of Pennsylvania

3730 Walnut Street

Philadelphia, PA 19104

David L. Kelly

Associate Professor of Economics and Chair of the Economics Department at the University of Miami

Hurricane Risk Perceptions: A Bayesian Approach

In securities markets, traders make buy and sell decisions based on disparate sources of information. In turn, buy and sell decisions determine securities prices. Therefore, the price of a security represents the consensus estimate by all traders of the expected value of the assets secured by the security. Events markets are securities markets created to forecast events such as presidential elections, Nobel Prizes, and quarterly sales figures. Events markets routinely outperform expert opinion, since the information aggregated from many traders often exceeds the information aggregated by a small group of experts. We have created an event market to forecast where hurricanes will land (the Hurricanes Futures Market or HFM), and recruited a group of meteorologists to trade. Using actual HFM trades, we estimate what information sources traders value the most and what information sources give the most accurate predictions. The results are useful for understanding how both experts and residents use hurricane forecasts.

David L. Kelly (Ph.D., Carnegie Mellon University, 1995) is an Associate Professor of Economics and Chair of the Economics Department at the University of Miami. Dr. Kelly previously taught at the University of California at Santa Barbara. He has published in journals such as the *Journal of Economic Theory*, *Economic Theory*, the *Journal of Economic Dynamics and Control*, the *Journal of Environmental Economics and Management*, and others. His primary expertise is in environmental economics, especially the macroeconomics of the environment. He has published work on a variety of topics in this area including optimal climate change policy with uncertainty and learning, climate change impacts, design of environmental regulation, the relationship between economic growth and the environment, and the effect of subsidies to industries on the environment. Dr. Kelly has also published work in macroeconomics, including monetary policy and how households anticipate interest rate changes and finance, including the pricing of illiquid assets and price volatility in financial markets.

The Risk Regulation Seminars take place at the Wharton School, room G50 in Jon M. Huntsman Hall. The seminars are free of charge and open to the public. For more information, visit our seminar website: <http://opim.wharton.upenn.edu/risk/conferences.html> or contact Carol Heller at hellerc@wharton.upenn.edu.

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