

A prediction problem worth billions of dollars: the non-farm payrolls report.

Today the NFP report came out: the US economy lost ~ 92,000 jobs.

Is this significant in an economy with ~150M jobs? The stock market reacts.

Economists who study this topic estimated instead a gain of ~ 80,000 jobs(!).

Today the stock market is down.

Loss of value ~ \$500 B. (in very round numbers)

Through mechanisms like short sales futures and options; this loss could be our gain - if only we could predict the NFP report more accurately than the economists.

Unfortunately this is a very hard problem!

More broadly, many prediction problems of this type exist. Collectively, they have enormous financial (or social) value.

All of these problems are studied using regression (and fancier variations on the theme.)

Solutions to midterm were discussed, and will be posted on the course website