



# QUARTERLY OUTLOOK

Scenarios for the global economy and asset classes

## TransEconomics

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## Note on subjective probabilities

The subjective probabilities that we assign to our forecast scenarios are our informed judgments, not the results of quantitative models. But they have been calibrated.

To understand calibration, imagine that we ask you to judge how probable it is that the Mexican soccer team will qualify for the 2018 FIFA World Cup, and you answer 80%.

Then we ask you to choose between two games. In one game, "Roulette", we spin a roulette wheel with an 80% chance of falling on black and a 20% chance of red. If black wins, you win \$US10,000. Otherwise you win nothing.

In the second game, "World Cup", you win US\$10,000 if Mexico qualifies for the next World Cup and nothing if it doesn't.

Which game would you prefer to play?

If you answer "Roulette", then you overstated your confidence: you are in fact less than 80% certain that Mexico will reach the 2018 World Cup. If you answer "World Cup", then you understated your true level of confidence and are in fact more than 80% certain.

We then ask you to adjust your subjective probability accordingly and repeat the experiment over and over until you finally report indifference between playing Roulette and playing World Cup.

At that point, your subjective probabilities can be said to be calibrated.

Learn more about calibrated estimates in *How to Measure Anything* (Chapter 5), by Douglas Hubbard.

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