

# Detailed Contents

List of Figures	xiv
List of Tables	xvii
Preface	xix

## Part I: Introduction and Review of Economic Concepts 1

### 1 Economics and Sports 3

Introduction 3

1.1 The Organization of the Text 5

Special Features and Additional Resources 6

1.2 Babe Ruth and Comparative Advantage 6

Opportunity Costs 6

Absolute and Comparative Advantage 7

Biographical Sketch: Babe Didrikson Zaharias (1911–1956) 9

Summary Discussion Questions Problems 11

### 2 Review of the Economist's Arsenal 13

2.1 The Supply and Demand Model 13

Demand, Supply, and Equilibrium 14

Changes in Supply and Demand 17

Elasticity 21

Explaining the Difference in Card Prices 23

Supply, Demand, and Government Policies 24

Price Ceilings and the Economics of Ticket Resale Markets 25

2.2 Output and the Production Function 27

A Note on the Definition of Output 27

The Production Function 27

2.3 Market Structures: From Perfect Competition to Monopoly 30

Perfect Competition 30

Monopoly and Other Imperfectly Competitive Market Structures 32



<i>The Impact of an Increase in Costs</i>	36	349
2.4 <i>The Rise of Professional Sports</i>	37	351
<i>Biographical Sketch: Mark Cuban (1958–)</i>	39	
<i>Summary Discussion Questions Problems</i>	41	
<i>Appendix 2A Utility Functions, Indifference Curves, and Budget Constraints</i>	43	
2A.1 <i>Constrained Maximization</i>	44	390
2A.2 <i>Using Indifference Curves and Budget Constraints: The Rise of</i>		418
<i>Soccer and Baseball</i>	50	419
<i>Appendix 2B Regression Analysis in Brief</i>	52	

## **Part II: The Industrial Organization of Sports**

57

### **3 Sports Leagues and Franchises**

59

*Introduction* 59

*Learning Objectives* 60

3.1 *Open Versus Closed Leagues* 60

3.2 *The Economics of Team Behavior* 61

*Maximizing Profits or Maximizing Wins?* 62

3.3 *Closed Leagues: Revenue and Cost in North American Sports* 66

*Revenue Is Determined by Demand* 66

*A Detailed Look at Revenue* 70

*Costs* 80

*League Size, Opportunity Cost, and Team Movement* 81

3.4 *Open Leagues: Revenue and Cost in European Soccer* 85

*Profit Maximization in Soccer* 88

3.5 *Single-Entity Ownership* 93

*Biographical Sketch: Bill Veeck (1914–1986)* 94

*Summary Discussion Questions Problems* 96

### **4 Monopoly and Antitrust**

98

*Introduction* 98

*Learning Objectives* 98

4.1 *What's Wrong With Monopoly?* 99

*Monopolists and Deadweight Loss* 100

*Do Monopolies Always Charge Monopoly Prices?* 102

*Promotion, Relegation, and Monopoly Power in Open Leagues* 103

4.2 *Strategic Pricing* 103

*Variable and Dynamic Ticket Pricing* 104

*Bundling* 107

*Price Discrimination and Two-part Pricing* 107

4.3 *What's Right With Monopoly?* 111



4.4	Strategic Barriers to Entry	113	
4.5	Society's Response to Monopoly: Antitrust Laws	115	
	An Important Anomaly: Baseball's Antitrust Exemption	116	
	Leagues That Lack an Antitrust Exemption	120	
	Limited Exemptions: The NFL and Television	121	
	Biographical Sketch: Alvin "Pete" Rozelle (1926–1996)	122	
	Summary Discussion Questions Problems	124	
5	Competitive Balance		127
	Introduction	127	
	Learning Objectives	127	
5.1	Why Study Competitive Balance?	128	
	The Fans' Perspective	128	
	The Owners' Perspective	130	
	The Effect of Market Size	131	
	The Influence of Diminishing Returns	133	
	A Brief History of Competitive Balance	133	
5.2	Measuring Competitive Balance	134	
	Within-Season Variation	135	
	Between-Season Variation	139	
	Illustrating Competitive Imbalance	142	
5.3	Attempts to Alter Competitive Balance	143	
	The Invariance Principle	144	
	Revenue Sharing	146	
	Salary Caps and Luxury Taxes	147	
	The Reverse-Order Entry Draft	149	
	Schedule Adjustments in the NFL	152	
	Promotion and Relegation	152	
	Biographical Sketch: Bud Selig (1934–)	153	
	Summary Discussion Questions Problems	155	
6	Sports Gambling		157
	Introduction	157	
	Learning Objectives	158	
6.1	A Brief History of Sports Gambling	158	
	Horse Racing	159	
	Sports Gambling	160	
6.2	Types of Gambling	162	
	Fixed-odds Betting	162	
	Pari-mutuel Betting	165	
	Fantasy Sports	167	
	The Efficient Market Hypothesis in Gambling	168	



6.3	Winners and Losers From Gambling	169
2.4	The Leagues	169
	Governments	173
	Consumers	176
6.4	Gambling Addiction and Problem Gambling	178
	Biographical Sketch: Joseph Oller(1839–1922)	180
	Summary Discussion Questions Problems	181

## **Part III: Public Finance and Sports**

**185**

### **7 Teams, Stadiums, and Municipalities**

**187**

	Introduction	187
	Learning Objectives	188
7.1	A Brief History of Stadium Construction	188
	The Entrepreneurial Period (1880s–1923)	188
	The Civic Infrastructure Period (1953–1990)	190
	The Public–Private Partnership Era (1991–Present)	194
7.2	What Do Teams Get From New Facilities?	197
	New Facilities Mean More Fans – At Least for a While	199
	New Facilities Often Mean Different Fans	199
	Do New Facilities Mean More Wins?	200
7.3	Why Do Cities Subsidize Facilities?	202
	The Direct Benefits From Facilities	202
	Spillover Effects	206
	Intangible Benefits	208
7.4	How Cities Pay for Facilities	212
	Avoiding Taxes	213
	Tax Increment Financing	214
	Sin Taxes	214
	Evaluating Taxes	215
	Stadiums and Municipal Debt	217
	Biographical Sketch: George W. Bush (1946–)	219
	Summary Discussion Questions Problems	220

### **8 Mega-Events**

**223**

	Introduction	223
	Learning Objectives	224
8.1	A Brief History of Mega-Events	224
	The Original Mega-Event: The Ancient Olympics	225
	The British Ethic and the Rise of the Modern Olympics	226
	FIFA and the World Cup	228



8.2	<i>The Short-Run Benefits of Mega-Events</i>	229
	<i>Broadcast Rights and Sponsorships</i>	229
	<i>The Host City</i>	230
	<i>Comparing Ex-ante and Ex-Post Economic Studies</i>	235
8.3	<i>The Long-Run Benefits of Hosting Mega-Events</i>	236
	<i>General Infrastructure</i>	238
	<i>Advertising and Branding</i>	239
8.4	<i>The Costs of Hosting Mega-Events</i>	240
	<i>The Costs of Staging a Mega-Event</i>	241
	<i>Institutional Reasons Why Cities Spend So Much</i>	244
	<i>The All-or-Nothing Demand Curve</i>	244
	<i>The Winner's Curse</i>	245
8.5	<i>Why Do Cities Continue to Bid?</i>	246
	<i>The Distribution of Costs and Benefits</i>	247
	<i>Noneconomic Rationales</i>	247
	<i>Biographical Sketch: Willard "Mitt" Romney (1947–)</i>	248
	<i>Summary Discussion Questions Problems</i>	250

## **Part IV: The Labor Economics of Sports**

**253**

9	<i>An Introduction to Labor Markets in Professional Sports</i>	255
	<i>Introduction</i>	255
	<i>Learning Objectives</i>	256
9.1	<i>An Overview of Labor Supply and Labor Demand</i>	257
	<i>Labor Supply</i>	258
	<i>Labor Demand</i>	259
	<i>Labor Market Equilibrium</i>	262
	<i>Human Capital and Player Compensation</i>	264
9.2	<i>Rank-Order Tournaments and Superstar Effects</i>	266
	<i>Tournaments, Superstars, and the Distribution of Income</i>	270
9.3	<i>The Dangers of Tournaments and Superstar Effects</i>	272
	<i>The Danger of Trying Too Hard</i>	273
	<i>Performance-Enhancing Drugs and the Olympics</i>	274
	<i>Biographical Sketch: Scott Boras (1952–)</i>	277
	<i>Summary Discussion Questions Problems</i>	279
	<i>Appendix 9A</i>	
	<i>Using Indifference Curves to Model the Labor–Leisure Choice</i>	281
	<i>The Labor–Leisure Model When Hours Are Fixed</i>	285
10	<i>Labor Market Imperfections</i>	287
	<i>Introduction</i>	287
	<i>Learning Objectives</i>	288



10.1	<i>The Monopsony Power of Sports Leagues</i>	288
	<i>The Economics of Monopsony</i>	288
	<i>The Impact of Rival Leagues</i>	289
	<i>The Reserve Clause</i>	290
10.2	<i>Unions in Professional Sports</i>	291
	<i>A Brief Introduction to the Economics of Unions</i>	292
	<i>The Unique Role of Player Associations</i>	295
10.3	<i>Free Agency</i>	296
	<i>The Advent of Free Agency</i>	296
	<i>The Franchise Tag</i>	298
	<i>Salary Arbitration</i>	299
	<i>Measuring Monopsony Power</i>	301
	<i>Salary Caps</i>	302
	<i>Luxury or Competitive Balance Taxes</i>	305
10.4	<i>Conflict and Compromise in Collective Bargaining</i>	306
10.5	<i>Professional Associations</i>	311
	<i>Biographical Sketch: Marvin Miller (1917–2012)</i>	313
	<i>Summary Discussion Questions Problems</i>	315
11	<i>Diversity, Equity, and Inclusion in Sports</i>	317
	<i>Introduction</i>	317
	<i>Learning Objectives</i>	318
	11.1 <i>Diversity, Equity, and Inclusion Through the Lens of Economics</i>	318
	<i>Diversity</i>	319
	<i>Equity</i>	319
	<i>Inclusion</i>	320
	11.2 <i>An Economic Theory of Discrimination</i>	321
	<i>Employer Discrimination</i>	322
	<i>Does Anyone Win With Employer Discrimination?</i>	325
	<i>Employee Discrimination</i>	328
	<i>Consumer Discrimination</i>	330
	11.3 <i>Toward Equal Access</i>	333
	<i>Role Discrimination</i>	336
	11.4 <i>Gender Equity in Competitive Sports</i>	338
	<i>Trans, Nonbinary, and Intersexed Athletes</i>	341
	<i>Biographical Sketch: Colin Kaepernick (1987–)</i>	344
	<i>Summary Discussion Questions Problems</i>	346



<b>Part V: Sports in the Not-for-Profit Sector</b>	<b>349</b>
12 The Economics of Intercollegiate Sports	351
Introduction	351
Learning Objectives	352
12.1 The NCAA	352
A Brief History of the NCAA	352
The Structure of the NCAA	354
12.2 The Costs and Benefits of Big-time College Sports	355
Football Dominates the Revenue From Intercollegiate Athletics	355
The NCAA Basketball Tournament as a Source of Revenue	360
The Cost of Intercollegiate Athletics	361
Subtraction and Addition	364
12.3 Monopoly Power in College Athletics	365
The NCAA and Optimal Cartel Behavior	366
Prisoner's Dilemma: How Rational Actions Lead to Irrational Outcomes	368
Academic Standards: A Key to Academic Integrity or Monopoly Power?	370
Antitrust and College Sports	370
12.4 Spillovers From Athletics to the University	371
12.5 The College Sports Labor Market	374
The Value of Athletes to Colleges	374
The Value of College to Athletes	375
College Sports as an Investment	378
12.6 Discrimination and College Sports	381
Racial Discrimination	381
Gender Discrimination	382
Biographical Sketch: Shawne Alston (1990–)	386
Summary Discussion Questions Problems	387
Works Cited	390
Photo Credits	418
Index	419